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China Country Commercial Guide FY 2003

Country Commercial Guide [CCG] **ID: 106626**

Regions: **EAP; Asia; East Asia; ADB**
Country: **China**

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Entered: **07/29/2002**
Expires: **10/01/2004**

The Country Commercial Guide (CCG) provides a useful starting point for U.S. businesses pursuing overseas export and investment opportunities.

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A Guide to Doing Business in China & Information on Current Economic Conditions
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1. Executive Summary The accession of China to the WTO, on December 11, 2001, has opened a new era in U.S.-China trade relations. China's membership promises to change the way business is done. This change will be gradual, and not without bumps in the road, but it is clear that the past is no longer a model for the future of China's behavior in trade related matters.

Meanwhile, China's economy continues to be healthy. Last year the official rate of growth of GDP was slightly over 7% and the number of foreign firms doing business in or with China has grown exponentially. According to Chinese statistics from last year, foreign firms have invested over $45 billion in China.

Despite this interest and investment, China remains a medium-sized market, albeit one with vast potential. Last year, China's Gross Domestic Product (GDP) was $1.19 trillion. This is about the size of the economy of Italy. Spread over a population of 1.3 billion, this does not represent a large amount of disposable income for the people of China. Last year, rural per capita GDP was $285.00, urban per capita GDP was $818.00. Since 1990, U.S. exports to China have grown almost 12% annually. Nevertheless, China consumes less than 2% of total U.S. exports, and U.S. investments in China represent only a tiny portion of the total U.S. holdings overseas. In spite of this, China holds huge potential for certain American exporters. In 2001, exports from China to the rest of the world were up 6.8%. Imports in the same time were up 8.2%. The latter is down from an amazing 36% the previous year, but import growth is still outpacing export growth. This shows that in key sectors, such as energy, telecommunications, medical equipment, construction, services, franchising, and many others, China is an interesting and viable market. With China's accession to the WTO, the number of sectors with market potential will expand dramatically.

American companies continue to have mixed experiences in China. Some have been extremely profitable, while others have struggled. To be a success in China, American companies must thoroughly investigate the market, pre-qualify potential business partners, take steps to assure that they will be paid, and craft contracts which minimize misunderstandings between the parties. The problems of doing business in China can be grouped in four large categories:

1. China often lacks predictability in its business environment. Predictability can be provided by a transparent and consistent body of laws and regulations. China lacks both. Its current legal and regulatory system can be opaque, inconsistent, and often arbitrary.

2. China has a government that tends to be mercantilist and protectionist. China has made significant progress toward a market-oriented economy, but parts of its bureaucracy still tend to protect local firms and state-owned firms from imports, while encouraging exports. WTO accession will certainly help in this area as well.

3. China has the remnants of a planned economy. In many sectors of the Chinese business community, the understanding of free enterprise and competition is incomplete. The Chinese economy is often prone to over-investment and over-production, for reasons not related to supply and demand.

4. Foreign businesses have been over-enthusiastic about China. Encouraged by a government eager for foreign capital and technology, and entranced by the prospect of 1.3 billion consumers, thousands of foreign firms have charged into the Chinese market. These companies often do not fully investigate the market situation, don't perform the necessary risk assessment, and fail to get counsel. Without the necessary preparation, these companies often stumble into bad business deals, resulting in trade complaints and lost investments.

It is important to understand that while reform is absolutely essential for China to fully participate in the world trading community, in many areas, these changes have not yet taken place. Companies must deal with the current environment in a realistic manner. Risk must be clearly evaluated. If a company determines that the risk is too great, it should seek other markets.

China's accession to the WTO brings new opportunities. Some have described it as, "the beginning of time," for trade relations. Problems will not disappear over night, but with WTO accession, the tools become available to address protectionism in China's market. As disposable income grows, China's market potential will expand as well. This will be a gradual process, but the combination of WTO and an expanding economy bode well for U. S. business in the years ahead.

2. Economic Trends and Outlook

A. Major Trends and Outlook

China's economy officially maintained steady growth in the first half of 2002. Price deflation and growing unemployment emerged as key economic concerns. Official forecasts predicted China's GDP to grow 7-8% in real terms for the year. According to Chinese government statistics, China's gross domestic product in 2001 officially achieved real growth of 7.3%, above the government's declared target of 7% but still the economy's second-worst performance in a decade. Most Chinese analysts attributed around two percentage points of the growth rate to the fiscal stimulus program that the government has pursued since 1998. In addition, although the Chinese government insists that its national GDP figures are accurate, some foreign observers believe the actual growth rate could be substantially lower. The Chinese authorities themselves acknowledge that many economic statistics, particularly those announced by provincial and local governments, are seriously flawed and are frequently inflated for political purposes.

Many analysts credit China for achieving a "soft landing" for its economy during the mid-1990s, bringing about stable growth with low inflation after earlier bouts of inflationary excess. Stringent monetary policies, however, caused consumer price levels to decline in 1998 and 1999. Although government-mandated service price increases kept China's consumer price index marginally positive in 2000 and 2001, retail prices have not increased since 1997. Some economists worry that China may not be able to create the high levels of investment and consumption, particularly from the private sector, needed to resolve the structural problems that beset the nation's economy. Together with the chronic difficulty in finding employment for an estimated 150-200 million surplus farm workers as well as a growing pool of urban unemployed, these problems pose a serious long-term challenge.

China continued to hold the exchange rate for the domestic currency (renminbi - RMB) during 2000 and through the first half of 2001. The gap between relatively lower Chinese interest rates and generally higher overseas rates, narrowed somewhat as the U.S. Federal Reserve reduced rates to maintain economic growth, leading to similar declines in China's foreign currency deposit rates. Interest rates on domestic currency deposits and loans were also reduced in February 2002 primarily as an economic stimulus measure. China received international acclaim for maintaining the value of its currency during and following the Asian financial crisis in late 1997. Stringent foreign exchange controls, however, have helped to prevent the kind of capital flight that plagued Mexico, Thailand and other countries in earlier periods. Although some believe China will widen the narrow band in which its currency trades, China continues to enjoy large trade and investment surpluses and has accumulated official foreign currency reserves in the range of $230 billion, more than ample to defend the exchange rate.

The government has stepped up its efforts to consolidate and strengthen large-scale state-owned enterprises (SOEs): the number of SOEs dropped from 64,737 in 1998 to 53,489 in 2000, while SOE output rose 15.8 percent in 1998, 5.8 percent in 1999, and 14 percent in 2000. SOEs accounted for 42.9 percent of GDP in 1998, 43.4 percent in 1999, and 45.4 percent in 2000. Investment in the state-owned sector accounted for half of all new investment in 2000, and available data indicate that SOE's contributed about the same proportion in 2001. Nevertheless, profitability remains a problem for state-owned industrial enterprises. According to official figures, about 36% of China's large and medium-sized state-owned industrial enterprises lost money in 2001. Through the first five months of 2002, total SOE profits actually fell 12.9 percent year-on-year.

The central government acknowledges that unemployment and income inequality are growing problems. In 2001, the average annual per capita disposable income of urban residents in 2001 was $830 while rural per capita income was $286. Only seven of China's provincial-level jurisdictions reported 2001 per-capita rural income levels above $365 per year (i.e., the World Bank's $1 per day standard for absolute poverty).

China's chronic and growing labor surplus is not reflected in the official unemployment rate of 3.6%. The official data do not account for approximately 23 million people laid off "temporarily" in the state sector or approximately 150 million surplus rural workers who make up a "floating population" that migrates between agriculture and urban jobs and that are at other times unemployed. A more accurate estimate of urban unemployment, cited by private researchers, would be 10-15%.

B. Principal Growth Sectors

As in the previous year, China's industrial sector - defined as manufacturing, mining and construction - drove gross domestic product growth in 2001. Industry accounted for half of GDP and increased 8.7% in real terms for the year. Following a record year in 2000 industrial output growth by state-owned enterprises, however, slowed somewhat in 2001 largely as a result of declining export demand toward the end of the year. Industrial growth, however, picked up in the first half of 2002, achieving a rate of 11.6% for the first five months of the year. Output growth by heavy industry, stimulated by the government-driven infrastructure and real estate investment, outpaced light industry by 2.5 percentage points, increasing 11.1% as compared to 8.6%.

Retail sales of consumer goods were slightly under RMB 3.8 trillion in 2001, up 10.1% over the year 2000 figure in nominal terms and about 10.8% with adjustments for price changes. In contrast to the previous year, however, retail sales growth slowed noticeably in the first half of 2002 to 8.6% as of May, down 2.5 percentage points from the 2001 figure. The consumer price index also continued its steady decline from about 1.7% at the beginning of 2001 to -1.1% in May 2002. May 2002 ex-factory prices remained negative as well, indicating that deflation would remain a problem at least into the second half of the year. In addition, service prices, which had largely kept the consumer price index positive through 2001, rose less than 0.5% through May of 2002.

C. Government Role in the Economy

Although China's private sector has grown tremendously since economic reforms began in 1979, state-owned or state-controlled entities continue to play the leading role in the Chinese economy. More precisely, the Chinese Communist Party maintains its authority to approve all economic policies as well as managerial appointments in all financial institutions and major industrial enterprises. The long-term plan is to sell all or part of government share in most state-owned enterprises to the public, except for those in industries deemed essential to national security. China's definition of "national security" in this regard, however, is currently quite broad, including telecommunications, mass media, and other areas not included in other countries.

Although direct price controls on most commodities have been eliminated, prices for thirteen broad categories of items, including electric power, transportation, telecommunications, and some services, remain subject to varying degrees of government "guidance." Fuel prices have generally been in accord with international prices, and have risen significantly as international market prices for petroleum skyrocketed in 1999-2000. The government sets all interest rates and fees at financial institutions, distorting the cost of capital and preventing banks and other institutions from using interest rates as a way to adjust for risk.

D. Infrastructure Investment

Infrastructure investment is a key element of China's economic growth potential, with major infusions scheduled for the road, railway, port, telecommunications, oil and gas, and coal sectors. Improvements to the rural electrical grid are also underway. Since 1998, the Chinese government has issued about RMB 650 billion in special bonds to fund infrastructure projects aimed at stimulating the domestic economy. This has kept growth in overall investment in double-digits. Total fixed asset investment grew 12.1% in 2001. Infrastructure investment, which rose 8.5% in 2001, accounted for about 40% of the total. State planners have set a target for total increase in fixed asset investment of 10% for 2002, the same as for the previous year. Through May 2002, however, fixed asset investment by state-owned and "other" entities (the latter being mostly mixed public-private and foreign invested enterprises) increased nearly 26% year-on-year, with infrastructure investment growing 22.8%.

Although the government is no longer explicitly pursuing a tight credit policy to quell inflation, its efforts to improve the asset quality of the state-owned banking system effectively limit the kinds of projects which receive official approval and which the banks will finance. Private firms, in particular, still have serious difficulties in raising capital. State-sponsored infrastructure projects are seen as "safe" investments for domestic financial organs. Financing for key projects comes from an increasing variety of sources, including special construction funds, surcharges on power and other utilities, provincial and local government budgets, as well as domestic loans from the China Development Bank and other banks.

Chinese officials have said they would prefer roughly 15-20% of infrastructure investment to come from foreign sources, but shifting foreign investment away from export-oriented industries presents some difficulties. Infrastructure investments have long payback periods, with no ready source of foreign exchange. Policies designed to attract foreign investment, notably those inspired by the central government's "Great Western Development Strategy," have tended to emphasize land-use and tax incentives without addressing more fundamental problems in the investment environment. China's weak legal structure, failure to enforce contracts and court decisions, restricted access to foreign exchange, and the cumbersome approval process work against foreign participation in infrastructure projects, particularly in the road, rail and power sectors. The impediments to foreign involvement in infrastructure projects are gradually disappearing. For example, changes in rules governing current account transactions have gone a long way toward solving the problem of guaranteeing foreign exchange convertibility.

3. Political Environment

Although there has been considerable reform of China's economic model - from a centrally planned economy to a market-oriented one - the same is far less true of the PRC's political system. The Chinese Communist Party (CCP) still dominates the entire political apparatus, and its leaders make all major policy decisions. Party members hold most senior government positions at all levels of administration. Ultimate authority rests with the 21 members of the CCP Politburo and, in particular, its seven-member Standing Committee. Ministries and lower-level counterparts implement policy on a day-to-day basis, and China's parliament, the National People's Congress (NPC), reviews and approves legislation and nominees for government offices. Many provincial governments - especially those in fast-growing coastal regions - actively adapt central government policy decisions to suit local needs. Senior leaders generally agree on the need for further economic reform, but stability remains the paramount concern, and differences exist within the leadership over the content, pace, and goals of both economic and political reform.

The September 1997 15th Communist Party Congress enhanced the power of Party General Secretary Jiang Zemin and endorsed policies to restructure, close, or privatize the bulk of China's state-owned enterprises. These policies were affirmed in March 1998 during the first annual session of the Ninth NPC, which also passed a sweeping reform of China's government apparatus. The number of ministries and commissions was reduced from 40 to 29, and by the end of the year the number of central government civil servants had been cut approximately in half. Moves for similar reductions in lower levels of government have been less effective. The March 1998 session of the NPC also approved Zhu Rongji's appointment as Premier and former Premier Li Peng's as Chairman of the NPC's Standing Committee. At its March 1999 session, the NPC approved revisions to bring the Constitution in line with principles approved at the 15th CCP Congress, including the legitimization of private enterprise and the importance of rule of law. While the 2000 NPC brought no significant initiatives, in 2001, the NPC reviewed the outline of the government's 10th five-year plan for China's economic and social development. This called for - among other things - the strengthening of the NPC's supervisory authority over the government, and the reform of the government's recruitment system.

China faces a growing disconnect between the demands of its reforming economy and society and a political system that is largely ill suited to meet their needs. The growing disparity between urban and rural incomes, a large "floating population" of itinerant workers, mounting unemployment created as State-Owed Enterprises restructure and downsize, and official corruption are the chief potential threats to stability. So far, none has prompted the kind of mass protest movement that erupted in Beijing in the spring of 1989, although a number of localized large-scale labor protests occurred in 2002. The central authorities prefer to minimize tensions through the implementation of pragmatic policies. They also recognize that moves to reduce personal and economic freedoms would harm China's long-term interests. Nonetheless, the national leadership would respond forcefully if confronted with what it regarded as another serious threat to its monopoly on political power, as it did after approximately 10,000 members of the Falun Gong spiritual movement appeared outside the leadership compound in Beijing in April

1999. A leadership transition in 2002 will likely contribute to a stronger emphasis on stability for the foreseeable future.

Political relations with the U.S. temporarily deteriorated following the accidental bombing of the Chinese Embassy in Belgrade, Yugoslavia, in May 1999 and again following the collision of a U.S. EP-3 reconnaissance aircraft and a Chinese fighter in international airspace in April 2001. Bilateral relations have gradually recovered from both incidents. China came out firmly in support of the United States following the September 11 terrorist attacks. Relations further improved with the October 2001 and February 2202 visits by President Bush to China. Differences, however, remain between the U.S. and Chinese governments on some political issues, such as nonproliferation and human rights, and these will continue to color the relationship.

4. Marketing U.S. Products and Services

A. Distribution and Sales

Before China's accession to the WTO, China prohibited foreign companies from distributing imported products or providing repair and maintenance services. China is liberalizing its distribution system to provide full distribution tights for U.S. firms. Current restriction for most distribution related services will be phased-out within three years from the date of accession, although the schedule of commitment until that time caries according to the service (for more information on China's commitments on the WTO please refer to our website, **http://www.usembassy-china.org.cn/fcs**).

Trading Companies: Among the most notable legal changes as a result of WTO is the release in July of 2001 of the Expanding Import and Export Management Rights of Foreign Invested Enterprises (FIEs) rule. The rule now allows manufacturing FIEs to become export trading companies, purchasing and exporting any products free from quotas, license control and government monopoly. This is the first step towards implementing China's commitment to liberalize trading rights. FIEs in foreign trade zones are now allowed to establish offices outside the zones which will enable FIEs to establish distribution networks across the country before the phase-in of the distribution rights. However, the law does not cover the establishment of FIE service suppliers (distribution companies), which is not required until December 11 2002, and then only through joint ventures in which an FIE has a minority stake. However, given the complexities of the markets in China it is advised that foreign companies use a domestic Chinese agent for both importing into China and marketing within China.

With careful selection, training and constant contact, a U.S. exporter can obtain good market representation from a Chinese trading company, many of which are authorized to deal in a wide range of products. Some of the larger companies have offices in the U.S. and other countries around the world, as well as a network of offices and affiliates in China. However, given transportation and communication difficulties as well as regional peculiarities, most of these trading companies cannot provide diversified coverage throughout China. China's WTO accession promises a three-year phase in of improved trading rights that should improve such conditions for foreign firms.

Local agents: In addition to trading companies, China is witnessing an explosion in local sales agents who handle internal distribution and marketing. Most of these firms do not have import/export authorization. They are the next layer down the distribution chain, buying imported products from those that do. They may be representative offices of Hong Kong or other foreign trading companies, or domestic Chinese firms with regional or partial national networks.

Given China's size and diversity, as well as the lack of agents with wide-reaching capabilities, it makes sense to engage several agents to cover different areas, and to be cautious when giving exclusive territories. China can be divided roughly into at least five major regions: the South (Guangzhou), the East (Shanghai), the Central/North (Beijing-Tianjin), West China and the Northeast.

The U.S. Commercial Service assists new-to-market firms. The International Partner Search (IPS) will locate, screen, and assess potential qualified overseas sales representatives, agents, distributors, joint venture partners, licensees, franchisees or strategic partners for your products or services. The IPS program locates up to six potential agents or distributors, screened from a large pool of candidate firms. Normal turnaround time is around 15 days after each post receives $600 for each product line and the company's product literature. A report is developed from on-the-spot research by U.S. Embassy staff and provides the contacts needed to launch marketing efforts in China. As a next step, a visit to China can be supported by Gold Key Service for appointments with prospective agents and distributors and key government officials responsible for an industry. IPS clients are eligible for a 25% discount on the Gold Key Service. Regional IPSs and Gold Key services are available from the USCS offices in Beijing, Shanghai, Guangzhou, Shenyang, and Chengdu, but nation-wide searches are not available.

For those firms unable to travel and seeking potential partners, the Commercial Service in conjunction with IBM now offers BuyUSA.com as a user supported "B2B" web site. Companies seeking foreign partners may list their firm's information and foreign buyers are enlisted worldwide. In China, plans for a Chinese language interface will draw on USASources.com, an existing service in Taiwan and future contributor of content to BuyUSA.com.

Establishing a Representative Office: Representative offices are the easiest type of offices for foreign firms to set up in China, but these offices are limited by Chinese law to performing "liaison" activities. As such, they cannot sign sales contracts or directly bill customers or supply parts and after-sales services for a fee, although most representative offices perform these activities in the name of their parent companies. Despite limitations on its scope of business activities, this form of business has proved very successful for many U.S. companies as it allows the business to remain foreign-controlled.

China's Company Law, which has been in effect since July 1, 1994, permits the opening of branches by foreign companies but, as a policy matter, China still restricts this entry approach to selected banks, insurance companies, accounting and law firms. While representative offices are given a registration certificate, branch offices obtain an actual operating or business license and can engage in profit-making activities.

Establishing a representative office gives a company increased control over a dedicated sales force and permits greater utilization of its specialized technical expertise. The cost of supporting a modest representative office ranges from $250,000 to $500,000 per year, depending on its size and how it is staffed. The largest expenses are rent for office space and housing, expatriate salaries and benefits.

Establishing a Chinese Subsidiary: A locally incorporated equity or cooperative joint venture with one or more Chinese partners, or a wholly foreign-owned enterprise (WFOE), may be the final step in developing markets for a company's products. In-country production avoids import restrictions - including relatively high tariffs - and provides U.S. firms with greater control over both intellectual property and marketing.

The role of the Chinese partner in the success or failure of a joint venture cannot be over-emphasized. A good Chinese partner will have the connections to help smooth over red tape and obstructive bureaucrats; a bad partner, on the other hand, can make even the most promising venture fail. Common investor complaints concern conflicts of interest (e.g., the partner setting up competing businesses), bureaucracy and violations of confidentiality. American companies should bear in mind that joint ventures are time-consuming and resource demanding, and will involve constant and prudent monitoring of critical areas such as finance, personnel and basic operations in order for them to be a success.

Some companies prefer to establish a wholly foreign-owned enterprise (WFOE, often pronounced "woofy") rather than a joint venture, with a view to retaining greater management control, due to concerns over intellectual property rights (IPR) protection, desire for simplicity, or for other reasons of corporate policy. The law on WFOEs requires that they either provide advanced technology or be primarily export-oriented, and restricts or prohibits them in a number of service and public utility sectors. However, an increasing number of U.S. companies find WFOEs, which now account for roughly 20% of all foreign-invested enterprises (FIEs), to be a viable entry vehicle to the China market, taking much less time and money to set up than a joint venture (see Chapter IV).

Licensing: Technology transfer is another initial market entry approach used by many companies. It offers short-term profits but runs the risk of creating long-term competitors. Due to this concern, as well as intellectual property considerations and the lower technical level prevailing in the China market, some firms attempt to license older technology, promising higher-level access at some future date or in the context of a future joint venture arrangement.

Licensing contracts must be approved by and registered with the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). A tax of 10-20% (depending on the technology involved and the existing applicable bilateral tax treaty) is withheld on royalty payments (see section F of this chapter).

Franchising: China has no laws as yet which specifically address franchising, but many foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, including some which for all practical purposes function like franchises. Virtually all of the foreign companies who operate multiple-outlet retail venues in China either manage the retail operations themselves with Chinese partners (typically establishing a different partner in each major city) or sell to a master franchisee which then leases out and oversees several franchise territories within the territory. Within three years of WTO accession, restrictions on equity share, number of outlets and geographical area are to be eliminated. Currently the State Economic and Trade Council is drafting a franchising law which will be forwarded to the State Council for their review. The draft law is not expected to be done until the end of 2002 or early 2003.

Direct selling: Major U.S. direct selling companies entered the China market in the early- to mid-1990's, when China's legal and regulatory framework for this industry was not very clear. Direct selling was quickly modeled after by domestic Chinese companies, some of whom abused this legitimate format of doing business and operated scams to rip off consumers and evade taxes. In early 1998, the Chinese government started implementing a series of strict controls over this industry, culminating in the re-licensing of all direct selling companies. Although a few major U.S direct selling companies were re-issued the business license, restrictions are severe and requirements many, resulting in difficult business environment.

E-commerce: The Chinese government has adopted an open attitude towards the advent of electronic commerce in China. Interest among both Chinese and international businesses focuses on investing and on establishing vertical integration and sales channels on-line. Investment is risky, however, due to the lack of clearly defined regulatory powers over the industry, an effective Chinese certificate authentication system, secure and reliable on-line settlement system, and an efficient physical delivery system. Many U.S. IT sector companies have been actively engaged in jointly developing these systems in China, and WTO accession will increase the speed of these developments.

B. Selling Factors/Techniques

Relationships: Personal relationships in business are critical. The Chinese feel more comfortable dealing with "old friends," and it is important for exporters, importers, and investors to establish and maintain close relationships with their Chinese counterparts and relevant government agencies. It is equally important that American exporters encourage strong personal relationships between their Chinese agents or distributors and the buyers and end-users. A web of strong personal relationships will help ensure smoother development of business in China.

Foreign Currency: In general, Chinese companies are not permitted to retain foreign exchange. In business deals with Chinese companies, U.S. companies have been asked to keep a portion of the Chinese companies hard currency earnings in foreign bank accounts to avoid reporting and turning it over to the foreign exchange control authorities. As part of an effort to clamp down on corruption and tighten foreign exchange control, the Chinese government is coming down hard on such practices. In September 1997, China issued a new rule allowing some Chinese enterprises that meet a certain criteria to establish a foreign currency account in the designated bank thus retaining a limited amount of foreign currency earnings. In November 2001, State Administration of Foreign Exchange adjusted the administration policy of Chinese enterprises' foreign currency account and further lowered the criteria for establishing such foreign currency accounts.

In contrast, FIEs are permitted to retain foreign exchange contributed to or earned by the enterprise. On December 1, 1996, China made its currency convertible on the current trade account. However, foreign exchange balancing requirements remain in effect in other Chinese laws and regulations and in joint-venture contractual arrangements.

Chinese companies are, however, able to purchase the foreign currency necessary for authorized imports and foreign-currency obligations such as licensing fees, royalties, and loans by authorized entities.

The banking sector is one area that has benefited from WTO accession. The ministry of Finance has moved very quickly to implement its WTO commitments. Client restriction on foreign banks' foreign currency services was one of the areas immediately removed upon China's WTO accession, which meant foreign banks could offer foreign-currency services to corporate and individual client. On March 19 2002, Citibank announced that it had become the first bank to receive a license to provide foreign currency services to local domestic customers.

C. Advertising and Trade Promotion

Advertising: Advertising is an effective way to create product awareness among potential consumers in China. Channels for mass advertising include publications, radio, television, billboard displays, internet, and sports sponsorship.

China's retail boom and increasing competition among retailers is making China's advertising industry grow even faster than the economy as whole. According to China's National Advertising Association (under the State Administration for Industry and Commerce, or SAIC), over-all advertising spending reached $ 8.7 billion in 2000, a 17% growth over 1999's volume. China has about 70,747 advertising businesses, including more than 380 foreign joint ventures. Foreign advertising firms are limited to taking an equity stake of up to 51% in joint venture enterprises. All of the major international advertising firms are present in China.

Television advertising takes the largest single portion of the Chinese advertising market. China's regular television viewing population is 84% of China's 1.2 billion people. Major articles sold on television include toiletries, foodstuffs, pharmaceuticals, liquor, and home electronics. Television stations in big markets (Beijing, Guangzhou, Shanghai) require advertisers to book and pay for specific spots two to ten months in advance.

Now that China is in the midst of a consumer revolution, foreign products, complete with advanced marketing, advertising and research techniques, are leading the way. Brand awareness is increasingly important and sophisticated advertising is beginning to play a crucial role in charming the Chinese consumer. Foreign products are expected to continue making inroads despite 1999 regulations calling for more control over customer surveys that help foreign firms enhance their marketing effectiveness.

China's 1995 Advertising Law contains guiding principles that set broad requirements. For example, one of the requirements is that advertising should "safeguard the dignity and interests of the State." Comparison advertising is not allowed, nor is the use of superlatives. Chinese restrictions within the advertising sector include requirements for the verification of safety and hygiene from the relevant ministries that monitor various consumer products. Censorship standards vary considerably throughout China.

MOFTEC and SAIC are the primary regulatory organizations for the advertising sector, but many other organizations, such as the Ministry of Culture and the State Administration of Radio, Film and Television, play an active role in controlling what ends up in print or on television.

Trade Shows and Missions: Hundreds of exhibitions are now held annually in China. Most are sponsored or co-sponsored by government agencies, professional societies, or the China Council for the Promotion of International Trade (CCPIT). Shows are also organized by U.S., Hong Kong, and state trade departments, and other professional show organizers. Show participation costs are sometimes high and may only reach a local audience so companies are advised to scrutinize which shows to participate in. A list of trade shows that are screened by the U.S. Department of Commerce are listed in the appendix.

Electronic Commerce and the Internet: The rapid growth of the internet raises interest in using "e-commerce" in China. Though China remains a developing country, the ambitious use of high technology has made inroads with the growth of governmental and business-to-business forms of e-commerce. Government at all levels seeks to use technology to inform the public about laws, deal with customs and simplify procedures, and businesses are beginning to conduct bidding, process sales and handle contacts on-line. In addition, direct marketing and sales-on-line have begun despite the lack of credit card usage and distribution difficulties. Beijing and Shanghai SAICs have begun a licensing process to create a "reasonable and reliable market." In May 2000, nearly 30 internet companies were awarded licenses to sell online advertising.

D. Product Pricing and Customer Service

Most Chinese consumers are sensitive to price and will usually choose the less expensive product unless they can be swayed by better after-sales service or clearly better product quality. For larger purchases, attractive financing that lowers the effective price is offered by Japanese, European and other foreign governments' companies and may make some U.S. products less competitive.

Foreign companies are normally not permitted to directly provide after-sales service and customer support for their products sold into China. Foreign Invested Companies (FIEs) can provide such services on products that they manufacture in-country. Foreign firms sometimes engage authorized Chinese entities to provide service, often on a contractual basis, or to establish service centers jointly that can provide both spare parts and after-sales service. American companies complain that such arrangements give them inadequate control over the quality of customer service and result in the loss of customer confidence. Some companies opt to provide regular servicing from bases outside of China, such as Hong Kong.

E. Sales to the Government

In 1999, the Chinese State Development Planning Commission (SDPC) issued new regulations controlling government procurement. While ostensibly making the system more transparent and open, it also centralizes the procedure much more. In the past, government procurement was conducted through state-owned/controlled companies affiliated with a particular ministry. Since these entities will remain the main end-users of the purchases, their participation in the process will probably continue.

China's government procurement practices have often not been consistent with open and competitive bidding and, for the most part, non-transparent. It is unclear at this point how the new regulations will streamline a system that previously was subject to at least one, and usually several, approvals from governments at various levels. While tenders for projects funded by international organizations are usually openly announced, most government procurement is by invitation only. Competition is by direct negotiation rather than by competitive bid but that is supposed to change under the new regulations. Goods and vendors for large projects that are covered in the annual state plan have been frequently designated during the planning process. All information, from solicitation to award, remains secret and is known only to those companies involved or to officials in the planning and industrial ministries.

Direct sales to the Chinese military are also a possibility. While restrictions on this type of business exist both in the United States and in China, U.S. manufacturers have successfully sold a wide variety of products to the Chinese military through the General Logistics Department of the People's Liberation Army (PLA).

F. Intellectual Property Rights (IPR) Protection

In spite of steady, significant progress in improving its intellectual property legal and regulatory regime, China continues to be a challenging environment for IPR protection. Criminal penalties are seldom applied, while administrative sanctions are frequently too weak. Trademark and copyright violations are blatant and widespread. While Chinese officials are increasing enforcement efforts, violations continue to outpace enforcement.

China's IPR Commitments: As part of its protocols of accession to the WTO, China has committed to full compliance with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), as well as other TRIPS-related commitments. During 2000 ³ 2001, China completed a revised Patent Law; implementing regulations to the patent law have since been adopted. China has also revised its trademark and copyright laws to ensure consistency with TRIPS requirements; implementing regulations to these laws are anticipated during 2002. Numerous other national and local IPR regulations and interpretations involving semiconductor layout design, protection of confidential data, computer software protection, as well as IPR enforcement and litigation, have also been adopted, amended or repealed since WTO accession.

Apart from China's WTO commitments, China has signed a number of international and bilateral agreements regarding IPRs. China is a member of the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Madrid Protocol, the Universal Copyright Convention, and the Geneva Phonogram Convention and Patent Cooperation Treaty. During 2002, the WIPO Copyright Treaty and WIPO Performance and Phonograms Treaty (the ¦Internet Treaties²) came into effect worldwide. While China's revised copyright law anticipates some of the amendments that would be required if China were to accede to these treaties, the Chinese Government is still debating whether to accede to the Internet Treaties. The U.S. Government believes that China's signing these treaties would further indicate China's intent to provide a high level of IPR protection.

In 1992, China signed an IPR Memorandum of Understanding (MOU) with the United States, pursuant to which China improved its laws governing IPR protection and joined the Berne Copyright and Geneva Phonograms Conventions. The March 1995 extension of the IPR MOU set out a plan for enforcing IPR and grants market access to certain products.

IPR Climate: Large-scale violations of intellectual property rights in China, including counterfeiting and smuggling, often overwhelm enforcement efforts. Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. The Business Software Alliance estimates that more than 90 percent of business software used in China is pirated. Consumer goods companies report that, on average, 20 percent of their products in the Chinese market are counterfeit. Chinese companies experience similar, or greater, problems with piracy and counterfeits.

Inadequate enforcement of IPR laws and regulations, through either judicial or administrative means, remains a serious problem. Enforcement of IPR regulations is uneven and is sometimes impeded by local interests. Administrative penalties for IPR violations, often no more than confiscation of the counterfeit products, are generally insufficient to deter counterfeiters.

In recent years, China has had some success in closing down factories that produce illegal optical disks (CDs, VCDs, and CD-ROMs) and computer software products - only to see an increase in such products smuggled across its borders. Limited market access for products such as foreign movies and computer software provides an additional incentive for smugglers and counterfeiters. The authorities have also conducted thousands of raids at both the manufacturing and the retail level, resulting in the confiscation of counterfeit or smuggled products.

IPR Enforcement Strategies: Combating IPR violations in China is a long-term, multi-faceted undertaking which also implicates general rule of law developments in Chinese society. Different industries have typically pursued different strategies based on a variety of factors: the pervasive nature of the IPR violation, the sophistication of the pirate or counterfeiter, difficulties in delivering the legitimate product through legitimate channels, the nature of the right being infringed and the effect of the violation on public health, safety or business interests, the familiarity of Chinese administrative or judicial organs with the type of violation, and budget and marketing constraints.

In 1998, foreign companies in China formed a coalition -- now called the Quality Brands Protection Committee (QBPC) -- to draw attention to the counterfeiting problem and to propose ways of strengthening enforcement. The QBPC has gained recognition from Chinese authorities as an official organization to protect their products and has been recognized internationally for its enforcement efforts. QBPC has expanded its membership and offers technical and financial support for IPR enforcement in China.

Chinese authorities are attempting to address the need for increased education on IPR matters generally by establishing IPR law centers at Beijing University, Tsinghua University, and People's University. Chinese IPR professionals are also studying in foreign countries, frequently with the assistance of international organizations, such as WIPO. During the past years, the U.S. and other foreign governments, as well as private organizations, have also conducted numerous national and local training efforts addressed to China's WTO obligations generally, including civil, criminal and administrative and Customs enforcement.

IPR Enforcement System: Initial recourse in countering infringements is frequently sought through the intervention of local administrative enforcement agencies. A disadvantage to administrative action is that generally administrative authorities, unlike courts, lack nationwide jurisdiction and can thus only provide a local remedy.

The Chinese government agencies most often involved in administrative enforcement actions are General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ) (formerly the Quality and Technical Supervision Bureau), the State Administration of Industry and Commerce (SAIC), and the National Copyright Administration and the General Administration for Customs. Administrative enforcement of patents by the State Intellectual Property Officer (SIPO) and Customs is also possible, with design patents being the most frequently enforced. Customs can confiscate products that infringe registered patents trademarks or copyright, upon either import or export. Many other national and local Chinese government agencies are also involved in IPR policy and enforcement, some of which have overlapping responsibility with other organizations and/or concurrent enforcement authorities.

China's revised IPR laws now require referral for criminal prosecution when criminal IPR violations are uncovered by administrative agencies. Such measures become increasingly important in order to bring down high piracy and counterfeiting rates, and as organized crime has become involved in various forms of IPR piracy and counterfeiting. However, thresholds for criminal prosecution are high, police and prosecutors may lack familiarity with IPR criminal matters, and the relationship of such criminal actions with administrative actions, including handling of recidivists and preserving evidence, are still developing. The United States has actively sought to assist China as it develops a more effective criminal IP enforcement system, through bilateral consultations and training initiatives.

China has established special IPR courts, frequently as part of its civil litigation panels, in all provinces, major cities, and at the Supreme People's Court. As part of its TRIPS obligations, China also provides for rights of appeal of final decisions by SIPO and the Chinese trademark office regarding the validity of a patent or trademark. Criminal proceedings are likely to be heard by criminal, rather than civil panels. In general, Chinese judges are charged with fact-finding and have greater discretion in case adjudication than judges in the United States. Many Chinese trial court judges, however, lack adequate legal training and the effectiveness of these courts are thereby undermined. The Supreme People's Court has issued interpretations of Chinese law which have also addressed many of China's international IPR obligations, including internet related copyright and domain name disputes. The Court also has issued certain interpretations to implement China's TRIPS obligations to provide preliminary injunctive relief for various IPR matters as well as to implement amendments to its IPR laws. Copyright preliminary injunction interpretations have not, however, been issued.

Patents: In 1998, China reorganized its patent office as the State Intellectual Property Office (SIPO) in an effort to improve IPR coordination and enforcement. As envisioned, SIPO will have authority over the Patent Office as well as the Trademark Office, and the National Copyright Administration.

Since China's patent law was first enacted in 1984, domestic and foreign patent applications have increased steadily. Patent protection was extended in January 1993 to pharmaceutical and chemical products, as well as processes; the period of protection was lengthened to 20 years. The amendments also provide the patent-holder the right of importation and expand the scope of patent infringement to include unauthorized sale or importation of products manufactured with the use of patented processes. China does not yet currently provide a similar scope of protection to certain biotechnology and business method patents as in the United States American companies also need to insure that they do not violate any relevant Chinese laws in seeking to obtain unauthorized use of Chinese genetic resources. China acceded to the Patent Cooperation Treaty on January 1, 1994, and will perform international patent searches and preliminary examinations of patent applications. Under the patent law, foreign parties must utilize the services of a registered Chinese agent to submit the patent application. Initial preparation of the application may be done by foreign attorneys or the Chinese agent.

Copyrights: In March 1992, China established bilateral copyright relations with the U.S. and in October 1992 acceded to both the Berne Convention and the Universal Copyright Convention. China also joined the Geneva Phonogram Convention in April 1993. Following accession to the Berne Convention, China explicitly recognized computer software as a literary work and extended protection to computer programs for 50 years without mandatory registration requirements for foreign rights holders. In addition to amendments to China's copyright law, China's Supreme People's Court has take steps to address digital and internet-based copyright issues. China has not acceded to the Internet Treaties, nor has it formally recognized ¦temporary copies² over the internet as implicating Berne Convention reproduction rights. China also provides for compulsory licensing of certain books used to implement national educational plans. In addition to optical media piracy, including music, movies, and video games, internet piracy has become an increasingly widespread phenomenon, particularly as internet penetration spreads in China.

Trademarks: China's trademark regime generally comports with international standards, with the principal exception of lack of equal recognition accorded to foreign well-known trademarks. Such recognition may be especially important in light of enhanced enforcement that may be accorded well-known marks under recent rules and regulations. The United States continues to raise these issues with Chinese authorities.

In October 1989, China joined the Madrid Protocol for reciprocal trademark registration to member countries. China has a "first-to-register" system that requires no evidence of prior use or ownership, leaving registration of popular foreign marks open to third parties. Foreigners seeking to distribute their products in China should consider registering their foreign mark and/or logo, any Chinese language translations, as well as appropriate internet domains. The Chinese trademark office has on occasion cancelled marks held by Chinese agents of U.S. distributors who without authorization registered such marks in their own name. Registration of company names is handled by a separate division of the State Administration for Industry and Commerce. The Law to Counter Unfair Competition extends IPR protection to trade dress.

Under the trademark law, foreign parties must utilize the services of registered Chinese agents to submit the trademark application. Preparation of the application may be done by foreign attorneys or the Chinese agent.

Trade secrets: Trade secret protection is widely pursued by Chinese and foreign companies in China, with a relatively large volume of trade secret litigation being handled by Chinese courts. The Law To Counter Unfair Competition (1993) defines unfair competition to include conduct that infringes the "lawful rights" of another ¦business operator², including acts that violate "commercial secrets" rights. Commercial secrets are defined as information which can bring economic benefits to the authorized users and which are protected by taking appropriate security measures, including technical and operational information not available to the public. Sanctions under the law include civil remedies such as damages, administrative sanctions such as fines, and criminal penalties for "serious violations." A law specifically addressing protection of business secrets was under consideration for several years in China but has not since been enacted. China is further obligated to protect trade secrets under the TRIPS Agreement . Various rules by the Ministry of Labor and Social Security and other ministries on a national or local level also provide for enforcement of non-compete provisions with employees based on their access to business secret information. In order for such non-compete provisions to be effective, reasonable compensation must be provided to the employee. China is also required by the TRIPS agreement to provide protection for certain non-disclosed clinical data used in securing regulatory approvals. The Ministry of Agriculture has adopted implementing rules for this TRIPS obligation. State Drug Administration regulations are expected to be adopted in 2002.

Semiconductor Layout Designs: China adopted regulations for the protection of semiconductor layout designs as part of its WTO accession. Registration is handled by SIPO. Protection of discrete elements remains unclear under these rules.

Regulation of Technology Licensing: The Chinese government continues to seek introduction of new technology through foreign investment and technology transfer. China has also promoted development of research and development facilities. Contracts transferring intellectual property as part of the foreign equity contribution to FIEs are generally regulated by laws concerning foreign investment. China's 1985 regulations on technology import contracts as well as subsequent regulations on technology export, which included contract-licensing, patents, trademarks, know-how, trade secrets, and contracts for technical services have been replaced by a new regime. Among the principal relaxation in controls on technology licensing contracts is that such contracts are now submitted to MOFTEC or its provincial commissions for filing, rather than for substantive review. In addition, the former restriction that most technology contracts are not to extend beyond 10 years has been removed. The new regime however requires that any improvements in technology licensed by foreigners to a Chinese entity belongs to the licensee. China also imposes other controls on exports of technology to address its own commercial and national security concerns.

Although the pace of filing has been increasing, Chinese companies have not aggressively pursued registration of their patents or trademarks in the United States, nor has there been significant IP related litigation involving Chinese-owned U.S. patents or trademarks.

G. Local Professional Services

The system for regulation of foreign commercial activity in China is difficult to navigate and non-transparent. Companies new to market are strongly encouraged to retain professional services to structure commercial transactions. Establishing a wholly foreign owned subsidiary, joint venture, or representative office requires compliance with complex contract approval requirements, business registration requirements, taxation regulations and statutes, and labor regulations. Many foreign banks, accountants, attorneys, and consultants have established offices in China and are familiar with Chinese requirements. Some Chinese professional service providers also have substantial experience serving foreign clients.

Accountants: Chinese law requires representative offices and foreign invested enterprises to engage the services of accountants registered in China to prepare officials submission of annual financial statements and other specified financial documents. Therefore, only Chinese accountants and joint venture accounting firms may provide these services. All the Big Five accounting firms (KPMG Peat Marwick, Pricewaterhouse Coopers, Deloitte Touche Tohmatsu, Ernst & Young, and Arthur Andersen) have established offices in China and provide services ranging from providing advice on taxation matters and preparation of investment feasibility studies, to setting up accounting systems that are in compliance with Chinese law.

Attorneys: During the past ten years, many U.S. and international law firms have received approval to register in China as a foreign law firm. Prior to 1992, most foreign law firms were registered as consulting firms. More than one hundred foreign law firms currently operate in China, of which nearly thirty are based primarily in the United States. Foreign law firms registered in China are restricted to advising clients on legal matters pertaining to the jurisdiction where they are licensed and general international business practices. Although a foreign lawyer may not offer a legal opinion, clients can obtain assistance with structuring transactions, drafting contracts, and resolving disputes. Only attorneys licensed in China may appear in court and provide legal advice on Chinese legal matters. Foreign law firms are currently allowed to open only one office in China and are not allowed to employ Chinese lawyers in that firm. Foreign lawyers are not permitted to qualify to practice law in China and are not allowed to form a joint venture with Chinese lawyers

Management Consultants: Foreign companies new to the Chinese market typically engage the services of local consultants to develop market entry strategies, conduct due diligence investigations, and identify potential investment partners, sales agents and customers. More than 100,000 companies are active in the Chinese consulting industry, of which approximately 65% are foreign firms. Licensed and unlicensed firms compete in the market, and the regulatory environment for this services sector is unclear.

Advertising: Approximately 64,000 advertising firms exist in China, of which 500 are foreign invested enterprises. Foreign advertising firms are limited to a 51% maximum equity stake. Many major international advertising firms have established a presence in China. Companies new to market can gain valuable advice from top-notch advertising firms on how to effectively craft an effective advertising strategy that is responsive to Chinese consumer preferences and cultural differences. Advertising is strictly regulated in

China, and penalties for violation of the law through misleading advertisements, unauthorized use of national symbols, or other prohibited forms of advertising are subject to fines of 100,000 RMB ($12,500).

U.S. Commercial Service offices in China maintain lists of U.S. law, accounting, and consulting firms with offices in China, as well as lists of Chinese firms that the Commercial Office or its customers have had favorable dealings.

H. Due Diligence

Undertaking a due diligence investigation prior to engaging in a trade or investment transaction can minimize risk of encountering commercial disputes. The primary causes of commercial disputes between Chinese and American companies concern breach of contractual payment obligations, irregularities in accounting practices, financial mismanagement, undisclosed debt, and struggle for control within joint ventures. These problems can be minimized by investigating the financial standing and reputation of local companies before signing contracts with them. Both U.S. and Chinese firms with offices in China conduct due diligence investigations; the former include Dun & Bradstreet, Kroll Associates, PricewaterhouseCoopers and Pinkerton Consulting Services. The fees charged by these companies may be considered a useful investment to ensure that the local customer or partner is financially sound and reliable. The U.S. Commercial Service's International Company Profile (ICP) service is now offered in China.

5. Leading Sectors for U.S. Exports and Investment

A. Best Prospects for Non-Agricultural Goods and Services

1. Telecommunications Equipment

After China's WTO accession, in order to promote further competition and the development of China's telecommunications industry the number of companies permitted to operate in the telecommunications market was increased. Major players now include China Telecom, China Netcom, China Mobile, China Unicom, China Railcom, Jitong Communications and China Satellite among others. In the past few years, China has made major investments in telecommunications infrastructure, especially in the national backbone network. Now China is undergoing the next stage of investment in telecommunications mobile and value-added services.

In 2001, the number of new mobile phone users increased to 94 million which was more than the total number of users in China prior to 1997. By May 2002, the number of mobile phone users reached 170 million, the largest number of users in the world. The number of fixed line telephone users also increased to about 200 million, taking the number one position for fixed line services worldwide. Due to the popularity of mobile phones, the growth rate was about five million new subscribers a month which well exceeded the rate of growth for fixed line telephones in 2001. A similar growth rate is expected for the foreseeable future. The use of pagers is decreasing, however, with 10 million fewer users between January and May 2002. Currently the remaining number of pager users is only 25 million.

For 2002, growth projections for the number of new fixed line users is 21 million and new mobile phone users is 55 million. The amount of investment in infrastructure and equipment in 2001 was USD 29 billion and is projected to be USD 27.8 billion in 2002 .

China Unicom is currently competing with China Telecom in the domestic marketplace. China Telecom uses Global System for Mobile Communications (GSM) and is developing General Packet Radio Service (GPRS). China Unicom began to offer Code Division Multiple Access (CDMA) services to the public from the middle of January 2002. The China Unicom CDMA system is a home grown system and provides a 2.5G type of service. China is currently developing two 3G standards which are CDMA2000 3.X and WCDMA.

China Mobile and China Unicom have previously only provided voice and short messaging services. At this point in the technology cycle, CDMA and GPRS are just able to offer these functions. CDMA has advantages over GSM such as lower emissions, better voice quality, less dropping out, larger capacity for communications and the ability to keep from being intercepted. CDMA also has advantages over GPRS such as higher transmission capabilities and the ability to build on existing technology which will make the transition from 2.5G to 3G proceed more smoothly. According to the CDMA Development Group (CDG), the number of worldwide CDMA users was 10 million by the end of 1996 and over 40 million in 1999. CDG estimates that the number of CDMA users in China will increase to 40 million by 2003, the fastest rate of growth in the world. CDMA was invented in the US and America has excellent experience in the application of the technology. Therefore, US providers should have good opportunities to export their technologies, software, equipment and services to China.

Although China's telecommunications services sector remains closed to direct foreign participation, a major U.S. carrier (AT&T) has been officially allowed to participate in a pilot project to provide value-added services in Shanghai's Pudong area. The Ministry of Information Industry (MII) intends to use this project to gain experience in regulating a telecommunications market that includes foreign participation.

China's WTO accession will eventually lead to an opening of the market for value-added services. Under the WTO, China has made commitments in three areas:

1. Upon accession, key telecommunications services in Beijing, Shanghai and Guangzhou, which carry about 75% of all domestic traffic, will be immediately open to foreign competition. Foreign carriers will be permitted up to 25% ownership in mobile services and 30% ownership in value-added services.

2. All geographic restrictions for valued-added services will be phased out within two years of accession. Geographic restrictions on mobile services will be eliminated within five years and on domestic wireless services within six years.

3. Forty-nine percent (49%) foreign ownership will be permitted in mobile services within three years of accession in 17 major cities and within five years for all of China. Forty-nine percent (49%) ownership will be permitted for international and domestic fixed line services within six years and 50% for value-added services within two years.

Best sub-sector prospects within this sector include the following: mobile and value-added capabilities for e-mail and web browsers and the ability to download ringing tones, logos/images, music, videos, games, stock market quotations, etc.

With the changes agreed for the mobile market under the WTO, US carriers and value-added providers should have good opportunities in the Chinese telecommunications market in future.

	2000	2001	2002
Total Market Size	15,500	18,000	15,000
Total Local Production	16,000	28,000	30,000
Total Exports	8,500	18,000	22,000
Imports	8,000	8,000	7,000
Total Imports from U.S.	757	1,100	12,00

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates.

2. Oil and Gas

China's overall energy consumption ranks second in the world. China's growing demand for energy has caused this traditionally off-limits sector to gradually open up to increasingly larger scale foreign participation. Reluctance to change has made progress in the oil and gas sector slow for foreign firms in China, but government encouragement has produced progress. The best opportunities for foreign participation are in natural gas infrastructure development and offshore oil exploration and production. Onshore oil projects are far less attractive due to lack of access to satisfactory leverage and geological data and a greater tendency to source equipment, services and technology domestically. Offshoot industries with high technology components are in high demand.

Among the primary energy consumption sources, crude oil composed about 20% in 2001. China's annual growth rate during the past 10 years for crude oil consumption was 5.77%. During the same period domestic crude oil production rose only 1.67%. This growing imbalance makes China a net oil importing country, a threshold it passed in 1993. According to China's 9th Five-year Plan (1996-2000), the net import of oil was 13.48 million tons in 1996, 28.58 millions tons in 1999, and 60 million tons in 2000. China's overall petroleum consumption exceeded 200 million tons in 2001, ranking it third in the world after the United States and Japan. This growth in oil consumption is attributed to continued strong economic growth. In fact, China's consumption of crude oil grew at an annual rate of nearly 6% over the past decade, while the growth rate of crude oil supply was less than 2% during the same period. In the next 15 years China forecasts that its economy will grow at 7%. During the same period, the demand for the crude oil is expected to increase at a rate of 4%, while the growth rate for domestic crude oil production will be only around 2%. Forecasts for crude oil demand by 2005 are 245 million tons. By 2010, forecasts estimated that China's annual consumption of crude will reach 300 million tons.

Currently natural gas covers only 2-3 % of China's primary energy consumption, which is much lower than the world average of 24% and the average in Asia of 8.8%. There exists great potential in the domestic natural gas market. The consumption demand for natural gas in the power sector, chemical and fertilizer industries, and city gas grid will grow rapidly. The total demand for natural gas was 26 billion cubic meters in 2000, and by 2005 it will hit 60 to 70 billion cubic meters. The ratio of natural gas in the primary energy consumption will climb to 5%.

Higher demand and anticipated slowdown in domestic output are likely to boost LPG import in 2002. The resumption of LPG import by Fujian Huaxing and Jiangsu Huaneng and the expected operational status of Ningbo Huadong LPG Co.,s 500,000 cubic meter refrigeration tank are sure to boost the import volume in East China.

Typically, Chinese state-run project operators purchase some foreign equipment, hire a small amount of foreign technical service expertise and then run the operation with local staff. Most Chinese enterprises prefer to pay for something they can put their hands on and own and have trouble seeing the value in foreign technical and consulting services. Prospects are brighter in the offshore sector, where the technical challenges are greater and thus the value of foreign technical services more easily recognized by Chinese operators.

China now is carrying out several huge oil and gas projects to meet its growing energy needs. Major projects are being driven by a combination of political, environmental and market factors. The on going Guangdong LNG Terminal and Supply Project, West to East Gas Project, as well as the coal liquefaction, natural gas exploration, Bohai Bay exploration, projects have brought, and will continue to bring, export opportunities for foreign companies. Good opportunities exist in both upstream and downstream engineering, project supervision, license, equipment, technology, consulting, marketing and supply sectors.

The Ministry of Foreign Trade and Economic Cooperation announced the top 200 enterprises in 2001 in export volume and the top 500 enterprises in 2001 import and export volume on May 27. It is the 12th list of the top 500 enterprises issued by the ministry since 1990. SINOPEC International Business Co., Ltd. and China National Chemicals Import & Export Corporation rank the 1st and 2nd position in the top 500 enterprises. The import and export volume of petroleum and chemical products holds a considerable proportion of trade in China. Among the top 500 enterprises, 17 enterprises specialized in petroleum and chemical products. Among these 17 enterprises, only 4 exported more than they imported. These 17 enterprises exported only $5942.96 million, while they imported $19,921.99 million. The import volume was mainly from petroleum, LPG, chemical fertilizers and chemicals.

Downstream infrastructure development in China centers primarily on upgrading existing refineries rather than building new ones, due to current overcapacity. In the late 1990s, the Chinese government shut down 110 small refineries, which generally made inferior quality petroleum products. 62 other small refineries owned by provincial and local governments are also likely to be merged into CNPC and Sinopec in the near future. Another major issue in the Chinese downstream sector is the lack of adequate refining capacity suitable for heavier crude oil, which will likely become a necessity as Chinese import demand rises in the mid-term. Several existing refineries are being upgraded to handle the heavier and the more sour grades of crude oil.

Chinese officials have spoken of their intention to build a national strategic petroleum reserve, but no formal policy announcement has taken place. To date, it is unclear whether China would build a government-held reserve of crude oil like the U.S. Strategic Petroleum Reserve (SPR) or require refiners to maintain a minimum stock level like in Europe, Japan and South Korea.

	2000	2001	2002
Total Exports	601	630	660
Total Imports	377	800	830
Total Exports to US	50	32	38
Total Imports from US	89	330	350

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates for oil and gas equipment, technology and services for oil and gas exploration, production and transmission projects.

3. Medical Equipment

China's medical device market is the largest in Asia outside Japan, and one of the fastest growing in the world. The medical sector experienced 18% growth in 2001. Though import statistics indicate a slow down in 2001, U.S. companies have reported increased sales and project 15% market growth in 2002. Imports account for approximately 50% of China's $2.5 ³ 3.0 billion USD medical device market, with the U.S. controlling around 35% of the total imported products, followed by Japan and Germany. As China's WTO commitments are phased in over the next three years, the instability of the regulatory environment will negatively effect profit expectations. Over the next 10-12 years, however, China should deliver the type of returns it is capable of.

U.S. products are viewed by Chinese end-users as being of superior quality and possessing the highest level of advanced technology. The domestic industry is consolidating, upgrading and beginning to compete on medium level technologies.

Most Chinese, as many as 85%, lack health insurance and only 1-2% of the population can afford top-end Western medical care. The ongoing reforms are not designed to expand the number of insured, but rather to replace government funding with enterprise/ employee funding. In the past, all government employees and workers at state-owned enterprises enjoyed virtually free medical care for themselves and their dependents. A new urban medical insurance system was introduced in 2000, with the goal of offering basic health care to urban workers. Approximately 50 million urbanites are covered under this system so far.

Depending on the product being exported to China, two Chinese agencies have regulatory roles in the approval processes for medical devices. All medical and dental equipment must be registered with the State Drug Administration (SDA) before sales and distribution in China. The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) is tasked with establishing technical standards for imports and exports through compulsory product certification. It regulates seven categories of medical devices. The Ministry of Health also regulates one-time use disposables.

China's rapidly changing regulatory environment will likely have a short-term negative impact on the overall market. The regulatory system established by SDA in 2001 was designed to streamline a confusing regulatory framework. AQSIQ also introduced a new certification system in 2002 for certain medical equipment. It is a step towards resolving national treatment and transparency issues, though expensive, time-consuming, and redundant testing requirements remain. Many companies have complained about these registration requirements and the U.S. Government has similarly raised this issue with the Chinese government. It is unclear if or when this regulatory and certification system will improve. China has also agreed to reduce their tariffs on medical devices in accordance to WTO rules by 2003.

	2000	2001	2002
Total Market Size	2,316	2,917	2,650
Total Local Production	1,820	2,056	2098
Total Exports	624	778	794
Total Imports	1,120	1,639	1,346
Total Imports from U. S.	347	561	446

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates from Chinese Customs statistics (only registered imports are included and production figures are estimated from SETC and China Medical Device Association).

4. Pharmaceuticals

China's pharmaceutical market averaged 10-12 % growth in 2001 making it one of the fastest growing in the world. China is the ninth largest Western pharmaceutical market in the world, with nearly $7 billion in sales in 2001. China's changing healthcare environment is designed to extend basic health insurance to a larger portion of the population and give individuals greater access to products and services.

The pharmaceutical market in China is dominated by its non-branded generic industry that operates with basic technology and simple production methods. Domestic pharmaceuticals are not as technologically advanced as western products, but nonetheless occupy approximately 70% of the market in China. Domestic companies are mainly government-owned and fraught with overproduction and losses. The Chinese government has begun consolidating and upgrading the industry in an effort to compete with foreign firms.

; Imported and joint venture medicines account for 30% of the market, with U.S. products well regarded for their high quality and reasonable prices. The drug distribution system in China is inefficient and adds considerably to the retail costs of medicine. Many U.S. companies complain of strict import regulations, low profitability, and complex licensing, hospital bidding, and reimbursement schemes.

It is estimated that most hospitals derive 25 - 60% of their revenue from prescription sales, as hospitals remain the main outlets for distributing pharmaceuticals in China. This will change with the separation of hospital pharmacies from healthcare services and with the growing numbers of retail pharmacy outlets. Retail pharmacy outlets are expected to grow in number once the government finally introduces its system to classify drugs as over the counter (OTC). The government is now encouraging development of chain drug stores, but the full effect might not be seen for several years.

The dietary supplements sub-sector has doubled from $3 billion in 1998 to a total volume of $6 billion sales in 2001. Experts estimate that the industry will reach $10 billion in annual sales by 2010, and will continue as consumers seek products with curative weight loss and other health enhancing effects. Over 3,000 domestic manufacturers of dietary supplements produce more than 4,000 different types of products. Domestic manufacturers fail to develop product branding and credibility and rely heavily on advertising to generate sales. As such, most domestic products, due to loss of credibility among consumers, tend to have short life cycles. High quality imported products only account for 10% of total sales. Companies report that complicated product registration, expensive and time-consuming certification requirements, and inexperienced and inefficient distributors are common obstacles in China.

In accordance with World Trade Organization (WTO) regulations, China has committed itself to cutting tariffs, liberalizing its domestic distribution practices, and restructuring its regulatory environment. Over the next three years, China will allow foreign enterprises to import products and engage in distribution services. Further more, China has also implemented new drug administration laws designed to streamline product registration and protect Intellectual Property Rights (IPR). These new laws may have a negative effect on market growth and profitability during the transitional period, but over the next 5-10 years this market should be able to provide the returns it is capable of.

Since China's accession to the WTO, many laws have been revised to address IPR protection requirements in TRIPS. China has agreed to six years of ¦data exclusivity² and has committed itself to implementing a patent linkage system. The SDA and other agencies have worked to crack down on counterfeiters but without greater resources and stricter legal consequences these actions alone will not be enough to curb this rampant problem.

	2000	2001	2002
Total Market Size	13,882	15,514	17,055
Total Local Production	13,878	15,266	16,793
Total Exports	687	738	739
Total Imports	691	986	1001
Total Imports from U.S.	57	91	82

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates. Import-export statistics were obtained from Chinese Customs and total local production estimates include medicines and chemical reagents, pharmaceutical preparations, veterinary medicines, and biological products. Note that local production figures include number from both domestic and foreign invested enterprises in China.

Traditional Chinese medicines are not included in these calculations. Estimates for 2002 are forecasts.

5. Pollution-Control Equipment

China has set plans to reduce its total pollutant discharge by 10% by 2005 as compared with 2000. Spending on environmental protection during the 10th Five-year Plan period (2001-2005) is projected to reach 1.2% of GDP, approximately $84 billion. By 2005, the Chinese government will try to ease the pollution situation, slow down the aggravation tendency of the ecological environment, improve environmental quality in key cities and regions, as well as amplify environmental protection policies, laws, and regulations.

The overall market is growing rapidly, but only a portion of it is truly accessible to foreign firms due to financing and hard currency constraints, low-cost local competition, closed bidding practices, and other market barriers. Products enjoying the best sales prospects include air and water monitoring instruments, continuous emissions monitoring instruments (CEM), Flue gas desulfurization equipment, drinking water purification systems, vehicle emissions control and testing devices, industrial wastewater treatment equipment, and resource recovery technologies. Large firms or consortiums that can provide turnkey solutions often have an edge.

Most large U.S. environmental firms have concentrated on World Bank and Asian Development Bank projects. The future may be brighter as affluent Chinese key cities begin to dramatically increase environmental spending, multinational investors uncork new sources of demand, and municipalities experiment with new project financing models. China's accession to WTO will help U.S. environmental exporters by lowering tariffs and discouraging import substitution policies, but change is expected to be neither instantaneous nor dramatic in this sector.

U.S. firms can use the following U.S. government sources:

1) Export Import Bank of the United States (Ex-Im BANK) The Ex-Im Bank facilitates the export of U.S. goods and services by providing loans, guarantees, and insurance for export sales. The major features of the program include: 1) short-term environmental export insurance policy to provide enhanced short-term support for small business exporters, and 2) enhanced medium and long term support for environmental projects, products, and services. The Ex-Im bank now accepts guarantees from three Chinese financial institutions: the Bank of China, the People's Construction Bank of China, and the Industrial and Commercial Bank of China.

Ex-Im Bank Representative in China:
Mr. Douglas Lee, Trade Finance Officer
Export-Import Bank Representative
31st Floor, North Tower, Beijing Kerry Center, Beijing, 100020
Tel: (86-10) 8529-6655 x 809
Fax: (86-10) 8529-6558
Email: douglas.lee@mail.doc.gov

2) U.S. Trade and Development Agency:

The U.S. Trade and Development Agency (TDA), an independent U.S. government agency, provides grant funding for studies to determine the technical, economic, and financial feasibility of major infrastructure and industrial projects in developing and middle income countries. TDA funds feasibility studies, conducted by U.S. companies, to get the U.S. private sector in on the ground floor of projects that have the potential for generating significant exports of U.S. goods and services. By providing assistance in project planning, TDA promotes economic development while helping the U.S. private sector get involved in projects that offer significant U.S. export opportunities.

We recommend that you familiarize yourself with TDA's mission and funding criteria, and discuss your project with a TDA representative prior to preparing a written proposal. The TDA website (**http://www.tda.gov/**) has a significant amount of information that will assist interested companies. Additional resource information on TDA's past activities and current events can be obtained by contacting TDA's Information Resource Center at (703) 812-2213.

China's WTO environmental services commitments cover sewage services, solid waste disposal services, cleaning services for exhaust gases, noise abatement services, nature and landscape protection services, and other environmental protection services. However, environmental monitoring and pollution source inspection is excluded. Under the bilateral WTO agreement, foreign service suppliers may provide environmental consultation services through cross-border delivery, without having to establish a representative office in China. All other foreign service suppliers may operate in China through a joint venture.

As income levels rise in a huge country with acute environmental needs, China's environmental market may grow to become one of the world's largest. However, American companies may find that competitors from other developed countries have already gained firm beachheads because these firms are now winning contracts with the help of subsidized loans, grants, and other tied aid from their governments.

	2000	2001	2002
Total Market Size	5,500	5,395	5,509
Total Local Production	2,420	2,650	2,950
Total Exports	70	130	141
Imports	3,150	2,875	2,700
Total Imports from U. S.	510	500	510

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates.

6. Insurance Industry

The insurance industry has shown rapid growth within the past few years, particularly the life insurance market, as average annual incomes have grown. In addition, the increasing number of private businesses, coupled with the decline of job opportunities in the state sector as a result of China's state reforms, has sparked people's interest in buying all types of insurance ranging from property to life.

According to the China Insurance Regulatory Commission (CIRC), in the next five years China's insurance industry should maintain annual growth rate of 12%. By the end of 2001, premium income topped $25.5 billion, up 32% over 2000. Life insurance premiums accounted for $17.2 billion, up 43% over 2000, while non-life insurance premium grew to $8.3 billion, up 15% over 2000. Total assets for the industry stood at $40.7 billion by 2001. Industry analysts estimate that by 2005, total insurance premiums should top $34 billion, achieving an "insurance depth" (insurance premium/GDP) of 2.3% and "insurance density" (average per capita premium income) of $25 per person. Other experts forecast the market will grow to about $120 billion in the next ten years.

By the end of 2001, according to CIRC, the number of insurers in China reached 52, comprised of five state-owned companies, 15 share-holding companies, 19 joint ventures and 13 foreign-funded enterprises with 170 Insurance agencies. Insurance in China is still dominated by domestic companies. Of the domestic companies, the top five, People's Insurance Company of China, China Re, China Life, China Pacific and Ping An are national companies with the freedom to operate nationwide. Other local companies such as Hua An and Guotai have more restrictive business licenses, limiting them to particular regions. In order to meet the challenges due to China's entry into the WTO, CIRC granted more licenses to domestic insurers, most of which are joint-stock companies.

To date there are 17 foreign insurers with operating licenses (twelve in operation and five pending approval): three from the United States (AIG, Chubb Group and John Hancock in operation) two from Britain (Royal & Sun Alliance and Prudential UK in operation), two from Canada (Manulife in operation and Sun Life Assurance pending approval) plus one each from Japan (Tokyo Fire and Marine in operation), Switzerland (Winterthur in operation), Germany (Allianz Dazhong in operation), Holland (Aetna in operation, now part of ING) France (Axa-UAP in operation) and Australia (Colonial Mutual in operation).

In 2000, CIRC granted two additional life insurance licenses to ING from Holland and Assicurazioni Generali from Italy in 2000. In April 2001, CIRC granted non-life insurance operating licenses to Samsung Fire and Marine from South Korea and Mitsui Fire and Marine from Japan. In October 2001, CIRC granted (pending approval) eight more licenses to European insurers. The four insurers, who received life insurance licenses, are the French CNP, the UK CGU, The Dutch Aegon (Transamerica), and French AXA. The four insurers, who received non-life insurance licenses, are German Allianz, Germany Gerling, Swiss Zurich and UK Royal & Sun Alliance. In December 2001, CIRC granted licenses to New York Life, Metropolitan Life, Canadian Manulife-Sinochem, and Japan Nippon Life. Altogether, over 110 overseas insurers from 17 countries and regions have set up 202 representative offices in 14 cities.

Growth of the insurance sector is poised to continue with effective implementation of China's WTO commitments. Market access barriers such as restrictive licensing have been addressed: China has agreed to grant licenses on a prudential basis, without numerical restrictions or discretionary "economic needs" tests. Companies can obtain a license if they have more than 30 years of experience in a WTO member country; a representative office established in China for two consecutive years; and global assets of more than $5 billion.

Additional WTO commitments include: Geographic restrictions will be phased out within three years of accession; internal branching is permitted consistent with the phase-out of geographic restrictions; master policy insurance and large-scale commercial risk insurance can be provided nationwide upon accession; health, pension and group products can be sold two and three years from accession, respectively; brokerage services will be permitted; reinsurance will be open completely after five years, with the existing 20% cession requirement being eliminated in phases.

	2000	2001	2002
Total Assets	40,800	53,000	60,000
Total Insurance Premium	19,200	25,500	30,000
Insurance Depth	1.8%	1.91%	2%
Insurance Density	15.4	17.4	20

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates.

7. Airport and Ground Support Equipment

Between 1949 and 1978 China invested several billion RMB in building and expanding airports, thus laying a sound foundation for the development of civil aviation. Since 1979 there has been a new spate of activity as new airports are built and old ones enlarged or renovated in response to the new demand created through the reform and opening policies. Developments have included a hub and spoke network and the consolidation of the airlines.

During the 9th Five Year Plan period (1995-2000), China invested 68 billion RMB ($8.2 billion) in civil aviation capital construction and 14.3 billion RMB ($1.7 billion) in technical renovation and utilized 514 million RMB ($62 million) of foreign investment for airport construction. 48 airports, including 25 trunk line airports have been built or renovated in the past five years, including Beijing, Shanghai, Kunming, Guilin, Zhengzhou, Huhehot, Harbin, Shenzhen, Chengdu, Wurumqi, Nanchang, Haikou, Xiamen, Yinchuan, Nanning, Nanjing, Hangzhou, Fuzhou, Guiyang and Hefei. 23 regional and tourism airports were built or renovated in the corresponding period of time. By the end of 2000, China had 143 civil airports, including 23 4E airports, 35 4D airports and 40 4C airport.

During the 9th Five Year Plan Period, China started the construction of major air traffic control centers in Beijing, Shanghai and Guangzhou. China will complete the unfinished work for the above three major air traffic control centers and continue the construction of four aircraft and aircraft-engine maintenance bases in Beijing, Guangzhou, Shanghai and Chengdu in the 10th Five Year Plan period.

During the 10th Five Year Plan Period (2001-2005), in addition to adding 300 airplanes, China will accelerate airport construction, update the technical grade of the major airports, enhance air passenger/cargo handling capacity, add advanced air traffic radar and telecommunication and navigation facilities, build and improve flight system, establish national, centralized and unified air traffic control system, strengthen the construction of aircraft maintenance bases and develop regional aviation. Priority will be given to airports constructed in the western region. By the end of 2005, China will have 173 civil airports including 3 large national hub airports, 6 medium-sized hub airports and 164 trunk line and regional airports.

Priority will be given to the foreign investment that will be directed toward airport infrastructure construction, technology upgrade and management training. The areas China strives to improve include: aviation security systems and equipment, specially explosive detection devices (bomb and trade detection), telecommunication systems, computer information management, settlements ticketing systems, global distribution systems and E-commerce. The traffic control system will be fully converted from program control to radar control.

Airport development and construction covers a wide range of products and services, including initial design and engineering services, construction equipment, specialized runway and air traffic control equipment, airport security systems and equipment, cargo inventory management facilities, telecommunications, x-ray equipment, emergency vehicles and even retail concessions and airport management services. Specialized training for air traffic controllers could also be grouped under this broad and growing sector of the aviation market. The Chinese sees U.S. companies as the world leaders in many of these categories.

With a country as large as China is geographically, tourism revenues growing rapidly, air cargo volume taking off, and the local population's increasing affluence, the government has placed a high priority on improving the entire air travel system. Much of the construction on the new airports has been done with local products rather than more expensive imports. One month after the opening of the Dalian airport (which used a tiny fraction of imports), the roof leaked during a mild rain. Unfortunately, this scenario is played out in many other cities. To the extent that U.S. firms are able to convince airport authorities of their superior quality, and resulting lower long-term costs, thus enabling them to compete against the cheaper and better connected local suppliers. Local, cheaper products don't always win. One-upmanship can be used to U.S. firms' advantage, as some airport authorities are using imported equipment to emphasize their own high status in the aviation community.

The data provided below summarize the import trend of airport equipment and services, based on imports in several HTS categories. These categories only represent imports of radar, remote radio control apparatus, navigational aids, elevators and escalators, baggage sorting and handling equipment systems, communication systems, signaling & safety equipment for airfields, special vehicles, baggage x-ray machines, and runway friction testers, therefore they must be viewed as incomplete, though representative of general trends.

Industry analysts and business people agree that the Chinese authorities have available funding and the interest in purchasing nearly $500 million of air traffic control equipment during the next five years, although nearly $150 million will likely go to a single company for the area control centers.

	2000	2001	2002
Total Market Size	1563	1539	1703
Total Local Production	626	626	689
Total Exports	235	285	262
Total Imports	1172	1198	1276
Total Imports from U. S.	313	311	218

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates. Trade numbers are based on Chinese customs figures for the HTS codes: 842810, 84798940, 8526, 85281340, 85308000, 86080090, 870190, 87021020, 8705, 87091100, 90221910, and 90318090.

**Local production figures are calculated on the basis of combined information from the General Customs Administration of China, ¦CAAC Journal² and ¦Economic Daily².

8. Building/ Decorations Materials

Among the hottest market sectors in China is the home building/decorations materials industry. Liberalization of ownership restrictions by the government coupled with rapid growth in housing construction makes investing in this market increasingly attractive.

Of the two, the home decorations market is experiencing the most rapid growth. Expected to continue development at a rate of 25-30% annually over the next five years, the total annual volume of decoration and refurbishing work will also likely soar from RMB 200 billion to 600 billion ($24.2 billion to $72.6 billion) from 2001 through 2005. According to the last two years of empirical analysis, building and decoration exports to China grew from $39.2 million in 1999 to $42.5 million in 2001. During this period, growth in this sector rose at a rate of 34.48%.

Hi-end housing, including overseas sales commodity housing, has been the target segment for foreign building material suppliers, as their products are well received by the developers. This kind of housing includes villas, serviced apartments and luxury flats with an average of price above RMB6, 000 ($750) per square meter. Customers in this market segment are mainly executives of foreign-owned enterprises or joint ventures and affluent local Chinese. With China's accession to WTO and strong economic growth, the niche will continue to grow.

Augmenting this sustained growth are 10 sub-sector categories, namely: acrylic and vinyl based paints; granite, crude/rough; coniferous wood veneer sheets; doors, windows, frames, and thresholds; aluminum doors, windows, and frames; plasters; sinks, wash basins, and stainless steel products; sanitary fixtures, porcelain/china; and other miscellaneous structural materials.

Though the U.S. excels in this market, overall exports to China in this market continue to decline. The global export market to China in building/decoration materials fell over 16% in 1999, and failed to regain lost ground by the end of 2000. Yet, U.S. exports to China grew in 2000 and 2001, by nearly 17% and 19% respectively.

China's "green" housing program is also potentially good news for U.S. exporters. Though the government has made efforts to stimulate domestic production of building materials through tariffs, economists realize the country lacks technology and environmentally friendly building materials. Recently, China's Ministry of Construction (MOC) published the Technology Guideline for Green Residential Housing. The guideline states that in the construction of green residential housing, materials should be reusable, recyclable, renewable, non-toxic, non-harmful, and pollution free. If "green" housing compliance follows the government's expectations, this niche will be greatly enlarged and capable companies will stand to benefit substantially.

The Chinese government recently reported the annual growth rate for housing at between 20% and 30%. MOC estimates that 3.0 billion square meters of urban housing will be completed in the next 5 years. While site construction expands, the government is working to develop programs that increase interior completion in new housing. Recently, the Beijing Construction Commission issued a new regulation requiring new residential housing projects to be submitted with completed decoration and refurbishment beginning in June 2001. Though this puts Beijing developers in a position to exercise monopolistic power, the empty-shell housing should end within one to three years, generating a huge market for supplemental construction and decoration materials.

China's accession to the WTO in 2001 further spurs the growth. Aside from improved corporate confidence towards trade and investment in China, tangible benefits are gradually emerging. Chief among them will be reductions in tariffs. As the table below shows, China lowered eight kinds of building materials upon the accession to WTO.

Tariff Reduction on Imported Building Materials

Products	Before WTO	After WTO
Glazed Ceramic Tile	45%	35%
Marble	24%	19%
Porcelain Ware	30%	24%
Kitchen Appliances	30%	24%
Window	16%	12.4%
Red Lauan Decorative Laminate Board	8%	4%
Household Red Wood Furniture	22%	14.7%
Stainless Furniture	18%	16%

	2000	2001	2002
Total Market Size	16,299	17,076	17,890
Total Local Production	16,712	17,686	18,716
Total Exports	1,046	1,299	1,633

Total Imports	633	699	771
Total Imports from U. S.	39	45	52

The above figures are calculated in US$ millions (1,000,000's) and represent estimates based on China Customs.

9. Automotive Parts

China is making efforts to develop its automotive industry into a pillar industry in the national economy by 2010. According to the Auto Industry Tenth Five-Year Plan (2001-2005), by 2005 annual production volume will reach 3.2 million vehicles of which 1.1 million will be passenger cars. The value of automotive industry production is projected to be RMB130 billion (USD 15.7 billion). The percentage of diesel engine vehicles is projected to increase from 29% in 2000 to 35% in 2005. The main goals for automotive components, parts and accessories are to improve technology and quality and to develop design capability. By 2005 it is proposed that the quality and standards of automobiles and key spare parts should reach or be close to that of the same categories internationally.

China's accession to the WTO will have a great impact on the automotive industry. By 2006, tariffs on imported automobiles will be reduced to 25% and tariffs on imported automotive parts and 2006 will reduce components reduced to 10%. The gradual reduction of tariffs on automotive parts and China's agreement to eliminate local content requirements after WTO entry will place domestic automotive parts manufacturers in direct competition with their international counterparts.

Most of the domestic automotive parts manufacturers are not strong in developing new products due to the small scale of their operations and a shortage of capital. Compared to international companies, few leading Chinese auto parts firms spend much on research and development (R & D). In the next five years, the Chinese government will continue to encourage foreign investment in automotive component development and manufacturing. There is definitely a growing market for imports. American products are generally highly regarded among Chinese customers.

US Position in the Market

Many US firms have already begun exporting to this fast growing Chinese industry. US automotive component firms have a good reputation for quality and reasonable price and some US firms are already well known to Chinese end-users. Domestic OEM firms encourage US suppliers to establish plants in China or work more closely with local firms to upgrade product quality. As more parts are sourced locally, the total cost of production decreases due primarily to the lack of an import tariff.

Import Climate

The reductions in automobile tariffs will make it much more cost effective for US firms to export finished vehicles to China. Reduced tariffs on parts will allow companies to import essential components that cannot currently be found domestically. Additionally, three years after China's accession to the WTO, American companies will have the right to distribute most products, including automobiles and related parts, in any part of China. Currently foreign companies can only distribute parts to one interior destination in China and they are not allowed to ship or distribute products between cities without working with a Chinese freight company.

Best Prospects for Products and Technology

In March 2002, China's top government authorities issued a new "Directory of Industries for Foreign Investment" which took effect on April 1, 2002.

The new Directory will encourage foreign investment in the following fields in the automotive manufacturing industry:

- Passenger cars and motorcycles;
- Engines for motor vehicles and motorcycles;
- Key automotive parts and components including brake assemblies, axle assemblies, transmissions, diesel engine fuel pumps, turbo-superchargers for diesel engines, external emission control equipment for diesel motor vehicles, filters (lube-oil, air and fuel filters), constant velocity universal joints, combination instruments and special high-strength fastener parts;
- Electronic fuel injection systems, safety air-sac equipment, and other automotive electronic equipment systems;
- Key motorcycle parts and components including carburetors, magnetos, starting motors and disk brakes;
- Special-purpose desert vehicles for the petroleum industry;
- Design and manufacturing of machine tools for motor vehicles and motorcycles including trimming dies, injection molds and die forming; clamping fixtures including welding fixtures and inspection jigs;
- Casting and forging of semi-finished products for motor vehicles and motorcycles; and
- Auto tail gas scavengers, catalytic agents and additives for motor vehicles.

	2000	2001	2002
Market Size	10,499	12,974	19,447
Local Production	9,733	12,207	17,847
Total Exports	1,580	1,782	2,800
Total Imports	2,346	2,549	4,400
Imports from U. S.:	48	70	80

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates.

10. Agricultural Chemicals

China's agriculture-related market has been the subject of great attention. Agrochemical exports to China are very important for U.S. industries, ranking as the top destination among U.S. fertilizer exports in recent years. In 2001, China imported $526 million in diammonium phosphate (DAP) from the United States, accounting for 93.89% of the total DAP import. China's goal is to rely less on fertilizer imports in the future. However, China lacks potassium resources and its phosphate is difficult to recover. Domestic output of fertilizer still cannot meet the total market demand, forcing China to import high-concentration and compound fertilizer. The import of such fertilizer is controlled by a quota management system, which will be phased out over the next five years.

China's accession to the WTO will provide benefits to U.S. fertilizer exporters. On accession, tariffs will drop 6% from the current 11% import duty rate. In 2002, the total volume of import quota for urea, DAP and NPK, by value, are 1.3 million, 5.67 million and 2.84 million tons, respectively. The import volumes within the quota are levied an import duty of 4%, while imports exceeding the quota are levied a duty of 50%. The quotas will be replaced by a tariff-rate quota system with in-quota tonnage limits expanded each year. WTO commitments further stipulate that all quotas must be fully allocated, forbidding the current practice of limiting imports by only allocating a certain portion of the quotas each year. Perhaps most significant, foreign firms will gain the right to import and distribute fertilizers after a five-year transition period, gradually dismantling the state-controlled trading monopoly.

China is taking measures to regulate the pesticide market to prevent toxic runoff and poisoning of consumers. The proportion of herbicides and fungicides as pesticides has increased. The proportion of pesticides featuring high performance, low toxicity and better safety characteristics has also increased. Imports of high efficiency, low toxicity, and low residual pesticides have strong market prospects, mainly as a supplement to highly toxic Chinese pesticides. However, foreign suppliers currently face discriminatory product testing requirements.

	2000	2001	2002
Total Market Size	10,673	11,100	11,518
Total Local Production	9,145	9,520	9,900
Total Exports	830	320	890
Total Imports	2,358	1,900	2,508
Total Imports from U. S.	1,205	700	876

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates.

11. Plastic Materials and Resins

In the tenth-five year plan (2001-2005), the annual growth rate of general synthetic resins is projected to be 6.8% and engineering plastics materials is expected to be 10%. However, the local output of plastic materials and resins can only satisfy 50% of market demand. As a result, China must import large quantities of plastic materials each year.

The local market requires imports of general-purpose thermoplastic resins, including polyethylene (LDPE and HDPE), polypropylene (PP), polystyrene (PS), acrylonitrile butadiene styrene (ABS), and polyvinyl chloride (PVC). This market is subject to fluctuation of up-stream supply and down-stream market demand.

Special engineering plastics and other resins, which possess special physical and chemical properties, are used widely in various industries as special materials. U.S. engineering plastic products have high-technology inputs and are very competitive in the local market. However, U.S. firms now face stiff competition from Japan, Korea and Taiwan, German. In recent years, imports of general plastics from the U.S. dropped sharply due to price competition and the close relationship between Asian competitors and China.

China needs to import large amounts of synthetic resins to meet local market demand. In 2001, for the first time China's imports of major GP plastics broke through 10mt and reached 11.67mt, up 21% over those in 2000. It is estimated that China's imports of PVC will reach 3mt in 2002, and increase to 3.4mt in 2003. Meanwhile, China has become the largest importer of engineering plastics in the last three successive years. Up to 2005, the demand for the five major engineering plastics (PC, POM, PA, PBT and PPO) and ABS will increase to 590,000 t/a and 1.6mt/a.

China's accession to the WTO will provide significant benefits to U.S. plastics and resins exporters. China will reduce average chemical tariffs by more than 50% by January 1, 2005. Specifically, the average rate will be reduced to a final average rate of 6.9%. Most quotas will be eliminated on virtually all chemical products upon accession. China has also agreed that any entity will be permitted to import most products, including plastics and resins, into China after a three-year phase-in period. U.S. companies operating in China will also be able to freely distribute plastic materials in China.

	2000	2001	2002
Total Market Size	15,150	16,500	17,895
Total Local Pro	6,000	6,000	6420
Total Exports	550	600	600
Total Imports	9,700	11,100	12,075
Total Imports from U. S.	680	700	740

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates.

12. Food Packaging Equipment

Under China's economic reform policies, most industries including the food, printing, plastics, pharmaceutical and chemical industries, have developed rapidly. This has resulted in increasing demand for packaging and therefore packaging machinery.

In reviewing the demand for packaging equipment from 2000 to 2002, it is very clear that interest in imported packaging equipment continues to increase. From January to April 2002, China imported packaging equipment was valued at USD200 million, including about USD10.99 million worth from the US, a market share of 5.5%.

There is increasing demand in the China market for high quality packaging that provides excellent opportunities for foreign packaging equipment firms. According to China Customs, overall packaging machinery imports grew at 15.17% over the 2001-2002 January to April period, while the sub-sectors of packing/wrapping and parts for packaging machines increased over 20%. Imports of American parts for packaging equipment grew very quickly at 42.87%, even though imports of US packing or wrapping machinery, filling/closing/labeling machines and clean/dry containers have been erratic or have declined in recent years.

China tends to source less sophisticated equipment from domestic sources to save money. However, Chinese customers are interested in importing complex, high-performance machinery that has no domestically manufactured equivalent. Price is always a prime consideration. Some companies claim that they are willing to pay a 5-10 fold premium for foreign manufactured products and that they anticipate buying more when possible in order to improve the overall quality of the end product.

Packaging firms value foreign-made machinery for its fast packaging speed and automation as well as reliability. A common sentiment is that Chinese-made machinery is adequate for some applications but that foreign-made machinery can be more profitable for complex packaging needs or lines that require continuous operation. Other major considerations are the reduced requirement for manpower and maintenance by using imported machinery.

In China, packaging usage continues to grow at around 20% annually and the importation of food packaging equipment continues to rise as well. The best sub-sector prospects within this sector include the following:

- filling/closing machinery (including bottling or can-sealing machines) which constitutes about 50% of the total packaging equipment market;
- packing/wrapping machinery which constitutes about 30% of the total packaging equipment market; and

- parts with a market share of about 15%.

Additionally, China is increasingly using honeycomb paperboard packaging instead of wooden crates which also provides opportunities for American manufacturers of honeycomb paperboard packaging equipment.

	2000	2001	2002
Total Market Size	1093	1297	1542
Total Local Production	733	880	1056
Total Exports	47	64	80
Total Imports	407	481	566
Total Imports from U. S.	30	34	32

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates.

B. Best Prospects for Agricultural Goods and Services

Go to **http://www.fas.usda.gov/** and search attachª reports for more information and reports on products and commodities.

1. Grains

- Wheat PS&D Code: 0410000
- Corn PS&D Code: 0440000
- Barley PS&D Code: 0430000

Short-term prospects for rapid increases in grain imports are not great. A steady market for high quality wheat and rice, and a growing market for malting barley account for nearly all current imports. Overproduction due to government support programs and declining food consumption of wheat and rice has limited imports in recent years in other areas. Still, domestic grain production has declined more than 10 percent as compared to the late 1990's, and demand for feed continues to increase steadily. It may take anywhere from 2 to 5 years to reduce current large stocks of grain given current production levels. However, given China's limited land resources, long term prospects for substantially increased imports are good. WTO commitments will allow China to limit combined rice, corn and wheat imports to just over 22 million metric tons a year or about 5 percent of consumption. Best prospects are for feed grains, particularly as domestic quality is improving for both wheat and rice.

(Wheat, Corn, Rice)

	MY00/01	MY01/02*	MY02/03*
Total Market Size	329	324	330
Total Local Production	338	332	336
Total Exports	10	10	9
Total Imports	1	2	3
Total Imports from the U. S.	0	0	1

Unit: Million Metric Tons
* Forecast

2. Grass Seeds

China is in the process of beautifying cities, improving its animal forage industry, and combating desert expansion and soil erosion. China will likely import greater amounts of grass seed as it returns more farmland to grassland and forest. China's import growth of forage seed species has been pronounced as farmers in China's Western regions see the livestock and forage industry as a means to higher incomes and simultaneously curb desertification and erosion. US market share of total grass seed imports has slipped while Chinese importers opt for cheaper priced forage seeds. In recent months, turf seed varieties from the US have faced stricter customs inspection. Canada, Denmark and the Netherlands are the United States' major competitors and have gained market share by offering less expensive seed. Despite these obstacles, the potential for greater grass seed sales to China remains significant. The most recent report on the Planting Seeds situation in China is CH1073.

	MY99/00	MY00/01	MY01/02*	MY02/03*
Total Market Size	N/A	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A	N/A
Total Exports	1,357	2,474	2,100	2,500
Total Imports	9,187	15,735	16,500	17,000
Total Imports from the U.S.	6,461	7,107	7200	7200

Unit: Metric Tons
* Forecast

3. Oilseeds

- Soybeans PS&D Code: 2222000 (beans)
- Soybean Meal PS&D Code: 0813100 (meal)
- Soybean Oil PS&D Code: 4232000 (oil)

Long-term prospects for soybeans and soybean products remain extremely promising. As incomes rise and diets improve, demand for both vegetable oil and soymeal for livestock feed has boomed. China was the largest single-country market for US soybeans in MY 2000 and 2001, importing more than three times MY 1998 levels. Expansion of domestic crushing capacity in southern and eastern China has nearly eliminated imports of soybean meal and oil. China's WTO accession agreement, however, created a tariff rate quota for soybean oil of 2.1 MMT that could increase oil imports if relative prices are suitable. Nonetheless, soybean import demand is expected to remain high due to the rapid expansion of the soybean crushing industry in east and south China, far from traditional production areas. One cloud on the horizon is new and confusing regulations on biotechnology, which caused a trade shutdown from March to May 2002.

For more information go to view the Oilseeds Annual report number CH 2011.

	MY00/01	MY01/02*	MY02/03*
Total Market Size	31,817	31,160	31,900
Total Local Production	15,401	15,250	15,750
Total Exports	208	200	220
Total Imports	13,246	11,000	13,600
Total Imports from the U.S.	6,222	5,000	6,100

Unit: Metric Tons
*Forecast

4. Poultry Meat

Poultry meat is a large and growing import market. The market, though is a very singular one. China produces enough chicken muscle meat to satisfy the domestic market and even export to Japan and Korea. However, Chinese cuisine creates a very strong demand for chicken offal, as well. As this offal sells for low prices in the United States and other countries where local tastes produce only a slight demand, exports to China are very attractive. The United States dominates the import market. The most popular items are chicken paws and chicken wingtips. Problems with Chinese quarantine oversight caused a drop in reported 2001 imports. The market should continue indefinitely but it is limited by available supply in exporting countries. The most recent report on China's poultry situation is CH2006.

	2000	2001	2002*
Total Market Size	N/A	N/A	N/A
Total Domestic Production	11,960	12310	12,560
Total Exports	505	530	545
Total Imports	870	765	775

Unit: 1000 Metric Tons
*Forecast

5. Hides & Skins

PS&D Code: 2111000

China is a major market for imported bovine hides and skins that are processed and used to manufacture finished leather goods for both the domestic and export markets. US hides are extremely competitive because the finished leather export industry relies on high quality hides for raw materials. In addition, the demand for US hides should grow as foreign invested tanneries re-locate to China. At present, there is also a large volume of US hides and skins that are trans-shipped through Hong Kong. According to U.S. Census Bureau Data, US hides and skins exports to China and Hong Kong grew to a record 546.2 million USD in 2001. All indications show that 2002 imports of US hides and skins should be strong. Most importers believe that pricing for hides and skins is the most important criteria when deciding on imports. The main competitors for US raw hides are Canada and Australia. The main competitors for US wet blues are Italy, Canada, Taiwan and South Korea. The most recent report on the Hides and Skins situation in China is CH2612.

6. Snack Foods

During the 1993-1997 period, direct exports of US snack foods to China increased at an annual average rate of 42% reaching a record high of $12 million in 1997. The regional economic crisis and restructuring of the state sector slowed China's economy in 1998, and US direct snack foods exports for the period fell by over 25% to $8.6 million. In 1999, China's direct imports of US snacks started to gain momentum, growing abruptly to $14 million, up 63%. Y2K set yet another record high for US direct exports of snack foods to China at $20.4 million, increasing 48% compared with 1999. Although 2001 trade value was down from the record year in 2000 all indications are that 2002 trade in snack foods will surpass the 2000 year highs.

The data below do not include nuts and chocolate which are sometimes included under "snacks." In 2001, China's direct imports of US tree nuts ($10.2 million) were 2.7 times greater than in 1999 ($3.7 million). Although reliable statistics are not yet available on China's consumption, production, or trade in snack foods, it is estimated that improved living standards, combined with developing distribution/retail systems, will continue to generate consistent demand for high quality US snack foods and other products that do not directly compete with Chinese domestic production.

Look for reports CH1810 and CH2608 for more information on China's Retail Markets.

	1999	2000	2001
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Total Imports from the U. S.	14,020	20,425	18,208

Unit: US$1,000
Source: US Bureau of the Census Trade Data

7. Fresh Fruits

Although China's fruit production is large, important US export opportunities still exist because of the country's poor post harvest storage, handling practices, and facilities. There is particular need for fresh fruit during the Chinese New Year Festival and in cities with a growing standard of living. Imported US varieties that have done well to date include apples, oranges, plums, and table grapes. At present, Washington State apples, Washington State cherries, California table grapes and, citrus from four states are the only US fruits with full access to China. Although many stone fruit types and US pears do not have access due to phytosanitary restrictions, ongoing negotiations between the USDA and China's quarantine officials may result in access. A few Chinese importers have licenses to import US fruits (other than apples, cherries, grapes and citrus) for hotels and supermarkets that cater to overseas visitors. A large amount of China's fresh fruit imports enter the country through Guangdong province, which borders Hong Kong. From Guangdong, the fruit is then distributed to most of China's major cities. Much of this fruit is not recorded in China's official customs statistics, but appears in Hong Kong transshipment data. For more information, view the Citrus Annual (CH1628), the Fresh Deciduous Fruit Annual (CH1622), the Peach Fruit Situation (CH2027), and the Stone Fruit Situation (CH9602).

	1999	2000	2001
Total Market Size	N/A	N/A	N/A
Total Local Production	62,376	62,251	66,580
Total Exports	591	711	711
Total Imports	600	832	739
Total Imports from the U. S.	51	74	89

Unit: 1,000 Metric Tons
Trade Data from China Customs HS Codes:
0803, 0805, 080610, 0808, 0809, and 0810

8. Beef & Pork

Growth in beef imports continues. About half of all beef imports are beef offal. The most popular cuts of imported beef offal are stomach and tendons. Two main markets exist for imported beef muscle-meat cuts. The first, accounting for 60 percent of beef muscle-meat imports, are lower end cuts (short plate and chuck eye roll) used for Chinese hot pot; the second are table cuts such as rib eye, sirloin and tenderloin. The pork import market, although very large, is exclusively offal. Local pork muscle meat is of quality comparable to that of the US and other countries, and it is considerably cheaper than imports. Recent foot and mouth disease concerns have led Chinese authorities to ban most imports of European pork. There is a good and growing market for pork offal such as, feet, stomach, tongue, and stomach. Much of China's beef and pork imports enter through so-called gray channels where imports can illegally obtain reduced fees and taxes and avoid quarantine restrictions. Recently the government has stepped up considerably its efforts to stop this illegal trade, but progress, if any, appears to have been minimal. Long term demand for pork and beef offal should continue. With limited land resources constraining beef production, long-term prospects for medium to high-quality beef cuts are also good. The most recent report on livestock and products is CH2009.

Beef and Pork
To

	1999	2000	2001
Total Market Size	338	332	336
Total Local Production	44.000	45.600	47.300
Total Exports	123	120	162
Total Imports	157	275	240
tal Imports from the U. S.	56	80	102

Unit: 1,000 Metric Tons

9. Dairy Ingredients

China's demand for dairy products has increased greatly over the last two years. Demand has grown the most for fluid milk; including yogurt and flavored dairy drinks. Total domestic milk production for 2001 was 11.229 million tons, up by 11.22 percent from the previous year. Out of this, cow milk production was 10.255 million tons, up by 23.9 percent. Although milk production has grown fast in China, it is still insufficient for the domestic dairy consumption increases. The use of raw milk in the production of fluid milk is limited by a shortage of raw milk supplies available to domestic dairies. Imports of fluid milk, powdered milk, and whey for 2001 went down by 35 percent, 18 percent, and 2.54 percent respectively due to higher prices on international markets. Despite this, U.S. share of fluid milk and powdered milk increased greatly.

Chinese exports of fluid milk and powdered milk for 2001 decreased, as well. This was not only because Chinas domestic demand has grown, but also because competition on the international market has grown more fierce and it is difficult for China's dairy products to compete with the quality of other major producing countries. According to China Customs statistics for the first five months of 2002, dairy product imports have declined over the same period in 2001. Constrained imports are due to high prices on the international market and because China has implemented more strict quarantine methods and a new labeling law since joining the WTO. Export growth over the first five months of 2002 remained flat. The potential for dairy imports in the near future is difficult to predict because much is affected by Government policies. Exports are expected to remain stable or increase slightly in the next couple of years.

Even with the strong consumption growth, China's per capita milk consumption is approximately 8.79 kg per year, among the lowest in the world. For the long term, as incomes rise and consumers continue to develop a taste for dairy products, the outlook and potential for large increases in dairy product sales are excellent. With strong growth in demand, over the next several years, dairy cattle herds should continue growing at an annual rate of over 5%. However, milk production will grow at a quicker rate as improved technology and breeding increase per-cow output.

Dairy imports for 2001

	Total	US Share
Fluid milk	9,599	150
Powder milk	59,853	2,414
Yogurt	2,856	0
Whey	119,780	40,449
Butter and dairy spreads	1,452	0
Cheese	2,030	167

Unit: Metric Tons

Dairy exports for 2001

	Total	US Share
Fluid milk	26,432	0
Powder milk	15,346	0
Yogurt	74	0
Whey	338	0
Butter and Dairy Spreads	0	0
Cheese	514	0

Unit: Metric Tons

Local Production for 2001

	Total
Milk	11.229
cow milk	10.255
powdered milk	N/A

Unit: Million Metric Tons

Note: The China National Statistics Bureau no longer provides information on other dairy products. MOA and the China Dairy Industry do not compile statistics on these products either.

10. Seafood

Salmon - Lower-priced salmon, such as chum and pink salmon, is much appreciated here. Sockeye salmon, due to its high quality, is becoming more popular in five-star, high-end hotels and restaurants. Fresh frozen Norwegian farmed Atlantic salmon is still the market leader and the greatest challenge for Alaska salmon.

Groundfish - Much of the pollock and cod imported are for processing and re-export, although a significant quantity remains in China for domestic consumption.

Crab - Through the first four months of 2002, the value of China's crab imports is greater than that of 2001. Alaskan crab is well liked here and is considered a delicacy by trades, hotels and consumers. Potential exists for export growth.

After China accedes to the WTO, tariff rates on seafood imports will be phased down by January 2005 from the current average of 25.3 to10.6%.

Value of US Seafood Exports to ChinaEdible Fish & Seafood Products

1
Salmon, Whole or Eviscerated

	1999	2000	2001
Total Value Edible Seafood	86,498	37,037	126,688
8,234	16,300	16,304	
Salmon, Canned	102	684	2,095
Crab & Crabmeat	20,230	11,208	15,553
Surimi (Fish Paste)	431	3,223	6,564
Roe & Urchin (Fish Eggs)	4,164	3,781	6,429
Other Edible Fish & Seafood	53,337	101,841	79,743

Unit: US$1000
Source: US Bureau of the Census Trade Data

11. Forest Products

Forest product imports continue to grow rapidly and prospects for continued growth are excellent. Growing consumption and declining domestic supplies drives increased import demand. Continued efforts to preserve natural forests and improve harvesting practices have limited domestic supplies. The government's housing reform campaign has helped stimulate consumption by increasing the demand for wood products for interior decoration and furniture. Demand for hardwood products is great in fancy plywood production and interior decoration uses. There has also been considerable growth in the construction of wood-frame housing, however, the size of this market is limited by building codes that do not recognize western-style wood-frame construction. The government has voluntarily reduced tariffs on a wide range of wood products since early 1999. Imports of logs and lumber now enter duty-free. US exporters to this market face strong competition from European hardwoods and from tropical hardwoods from Southeast Asia and African countries.

Roundwood

	2001	2002*	2003*
Total Market Size	58,815	55,229	52,019
Total Production	41,970	42,809	43,237

Total Exports	18	13	12
Total Imports	16,863	20,573	25,099

Unit: 1,000 cubic meters
*Forecast

Temperate Hardwood Logs
Total Imports
Total Exports 17 12 11

	2001	2002*	2003*
Total market Size	18823	19703	20713
Total Production	13850	14127	14410
4990	5588	6314	

Unit: 1,000 cubic meters
*Forecast

Temperate Hardwood Lumber

	2001	2002*	2003*
Total Market Size	4913	5622	6444
Total Production	2561	3,059	3,606
Total Exports	346	350	367
Total Imports	2,698	2,913	3,205

Unit: 1,000 cubic meters
*Forecast

Note: Statistics are derived from the FAS 2002 Forest Products Annual Report (CH2026). Total production statistics include planned production only. Industry sources cite that about 35 million cubic meters of roundwood production are out of official statistics. Also, roundwood and temperate hardwood logs and lumber statistics do not reflect trade in finished furniture, veneer, plywood, etc.

6. Trade Regulations and Standards

The signing of the U.S.-China Bilateral Market Access Agreement on China's Accession to the WTO on November 15, 1999 represents a major victory in the United States' ongoing effort to open China's market to U.S. goods and services. By encouraging structural reform and the rule of law, the Agreement will also support China's own domestic reform process.

China in 2000 completed its bilateral WTO negotiations with all concerned WTO member states except Mexico. The WTO Working Party on China's accession resumed drafting of a Protocol and Working Party Report with a view towards completing the accession process by the end of 2001. WTO membership will build on and strengthen China's implementation of its commitments to the United States in the 15 trade agreements negotiated since 1979.

China restricts imports through a variety of means, including high tariffs and taxes, non-tariff measures, trading rights restrictions, and other barriers. Prohibitively high tariffs, in combination with taxes and other import restrictions, block many imports. Chinese officials are increasingly aware, however, that such protective measures contribute to endemic economic inefficiencies and encourage smuggling. To this end, the Chinese Government has undertaken measures to reduce these barriers. The number of firms with trading rights is continuing to increase; after WTO accession foreign entities will also benefit from this right. China is reforming its tax system to minimize distinctions between domestic and foreign entities according to the WTO principle of national treatment. In addition, China substantially reduced the number of goods subject to import quotas. China is clarifying its licensing procedures in accordance with the WTO's transparency requirement. Finally, in preparation for WTO accession, the Chinese Government cut tariffs on many goods on January 1, 2001.

A. Import Tariffs and Custom Regulations

The most comprehensive guide to Chinese Customs regulations is The Practical Handbook on Import & Export Tax of the Customs of the PRC, compiled by the General Customs Administration. This guide contains the tariff schedule and national customs rules and regulations. It may be obtained for 220 RMB plus shipping and handling from:

> Xing Sheng Zhong Hai Fa Xing Zhong Xing Company.
> #6 Jian Nei Da Jie
> Dong Cheng Qu, Beijing 100730.
> Phone: (86-10) 6519-5923
> Fax: (86-10) 6519-5616

Tariff Rates: The Customs General Administration (CGA) assesses and collects tariffs. Import tariff rates are divided into two categories: the general tariff and the minimum (most-favored-nation) tariff. Imports from the United States are assessed at the minimum tariff rate, since the U.S. has concluded an agreement with China containing reciprocal preferential tariff clauses. The five Special Economic Zones, open cities, and foreign trade zones may offer preferential duty reduction or exemption. Companies doing business in these areas should consult the relevant regulations.

On top of normal tariff duties, both foreign and domestic enterprises pay either value-added taxes (VAT) or business taxes, depending on the nature of their business and the type of products involved. VAT applies to enterprises engaged in import-export, production, distribution or retailing activities.

China offers a comprehensive program of tax incentives and concessions. The general VAT rate is 17% but necessities, such as agricultural and utility items, are taxed at 13%. Enterprises regarded as small businesses (annual production sales of less than renminbi 1 million or annual wholesale or retail sales of less than renminbi 1.8 million) are subject to VAT at the rate of 6%. Unlike other VAT payers, small businesses are not entitled to claim input tax credits for VAT paid on their purchases. Different standards apply regarding VAT rebates. The applicable rebate method is a function of the establishment date of the enterprise. Certain limited categories of goods are exempt from VAT.

In an attempt to stimulate exports, the State Tax Administration increased VAT rebates several times in 1999, up to 17% (a full rebate) for certain kinds of processed exports. Exporters complain that it takes months to obtain the rebates and amounts are often miscalculated. A recent crackdown on fraudulent VAT rebate application has made rebates completely unavailable in some areas of Guangdong and Fujian provinces.

China's accession to the WTO is likely to accelerate the phase out of its two-tier tax system for domestic and foreign enterprises. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreign invested firms. The move towards national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. In addition, increasingly sophisticated collection methods are reducing loopholes for all market participants. For example, the authorities prohibited the granting of preferential treatment on business tax collection to newly established foreign-owned or invested financial enterprises as of May 1, 2001. (Pre-existing firms, however, can continue to receive preferential treatment until such time as the tax benefit was originally slated to terminate.)

Tariff rates significantly lower than the published MFN rate may be applied in the case of goods that the Chinese Government has identified as necessary to the development of a key industry. This has been particularly true of high technology items. These products benefit from a government policy to encourage investment in high technology manufacturing by domestic and foreign firms. Foreign investment firms that produce certain types of high technology goods, or that are export-oriented, do not have to pay duty on imported equipment which is not manufactured in China and which is for the enterprise's own use. China's Customs Administration has also occasionally announced preferential tariff rates for items that benefit other key economic sectors, in particular the automobile industry.

Customs Valuation: According to Chinese Customs regulations, the dutiable value of an imported good is its CIF price, which includes the normal transaction price of the good, plus the cost of packing, freight, insurance, and seller's commission. In August 1998, the Customs Administration launched an ambitious program to standardize enforcement of customs regulations throughout China as part of a larger campaign to combat smuggling. The program has reduced some of the flexibility of local customs officials to "negotiate" duties. However, customs officials still have wide discretion concerning the category in which an import is placed.

B. Trade Barriers

The Bilateral Agreement on China's WTO Accession is only the latest of fifteen trade agreements negotiated between the United States and China since 1979. These agreements cover everything from civil aviation and satellite exports to agriculture and intellectual property rights protection. Each of these agreements has played a role in China's gradual process of trade liberalization, and created new opportunities for U.S. exporters.

The Chinese government has recognized for a number of years that economic reform and market opening are cornerstones of sustainable economic growth. Nonetheless, these reforms have been difficult and often painful for certain constituencies, particularly in the aging industrial sector and heavily protected agricultural sector. Thus, while China today has a vastly more open and competitive economy than 15 years ago, there are still many significant barriers in place.
Some of the current trade barriers that U.S. firms face are:

High tariffs: For example, some motor vehicles face tariffs of over 80%. U.S. industry points out that tariff rates for sectors in which China is trying to build international competitiveness remain especially high. Under the bilateral WTO agreement, once China accedes to the WTO its industrial tariffs will fall from an overall average of about 15% to an average of 9.4 % several years after accession. The motor vehicle tariffs will eventually fall to 25%. Tariffs for U.S. priority agriculture products will quickly fall from an average 31.5% to 14.4%. If China signs the Information Technology Agreement (ITA), which should occur upon China's WTO accession, tariffs on all ITA goods - such as semiconductors and computer hardware - would be eliminated by January 1, 2005. Until accession takes place, however, tariffs will continue to act as an effective import barrier.

Import Quotas: WTO rules bar quotas and other quantitative restrictions. China has been gradually eliminating them and will continue this process after accession over a several year phase-in period. Specifically, the bilateral agreement with the United States requires China to eliminate existing quotas for the top U.S. priority products upon accession and phase out remaining quotas, generally by two years but no later than five years after accession. At present, however, quotas limit over 40 categories of imports, including automobiles, grains, edible oils, and certain textile products. Monopoly importers, such as those that exist for theatrical film imports, are able to establish de facto quotas.

Tariff-Rate Quotas: In 1996, China introduced tariff rate quotas (TRQ) on imports of wheat, corn, rice, soybeans, cotton, barley, and vegetable oils. The regulations governing TRQ administration have not been made public. Out-of-quota rates are currently as high as 121.6%. In bilateral WTO negotiations, the United States sought and won commitments to increase quota levels and transparency in administration.

Once it accedes to the WTO, China will establish and gradually increase large tariff-rate quotas for wheat, corn, rice, cotton, and soybean oil, with low in-quota duties ranging from 1- 10%. A portion of each TRQ will be reserved for importation through entities other than state trading entities. To ensure full use of the TRQs, China agreed to specific rules for administration of the TRQs, including increased transparency and reallocation to importers of any unused quota.

Import Licensing: Since the early 1990s, China has eliminated many import license requirements, a process that is likely to continue as China prepares for WTO accession. However, many products subject to import quotas also require import licenses, including some wool, grains, oilseeds and oilseed products, cotton, iron and steel products, commercial aircraft, passenger vehicles, fertilizer, hauling trucks, and rubber products. MOFTEC administers the licensing system, but has given primary authority for approval and import of some agricultural items to the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ). Import licenses are not easy to obtain. The applicant must prove that the import is "necessary" and that there is sufficient foreign exchange available to pay for the transaction.

Administrative Controls: Certain designated commodities must go through an automatic registration process and secure a "Certificate of Registration for the Import of Special Commodities" prior to importation. The certificate is valid for six months.

Transparency: It is increasingly easy to find information about economic and trade regulations in the print and electronic media. The 1992 U.S.-China bilateral market access MOU committed China to publishing all relevant laws, rules, regulations, administrative guidance and policies governing foreign trade that are not currently published. In conjunction with this commitment, China designated the MOFTEC Gazette (Wengao) as the official register for publication of all laws and regulations relating to international trade. Most government ministries have taken to publishing digests of their regulations, both in hardcopy and on their websites. The State Council (**http://www.cei.gov.cn/**) and MOFTEC (**http://www.moftec.gov.cn/**) websites are good first sources of information on Chinese foreign trade law. Economic newspapers now routinely carry the text of government policies and regulations. In addition, a number of commercial entities now offer databases and translations of many regulations.

However, despite this progress transparency is still a problem. Chinese officials routinely implement policies based on "guidance" or "opinions" not available to foreign firms and they have not always been willing to consult with Chinese and foreign industry representatives before new regulations are implemented. It can be extremely difficult to obtain copies of draft regulations, even when they have a direct effect on foreign investment. Furthermore, many decisions are left to the discretion of the implementing bureaucrats, who can make decisions without resorting to public comment or open procedures.

Legal Framework: Laws and regulations in China tend to be far more general than in most OECD countries. This vagueness allows Chinese courts and officials to apply them flexibly, which results in inconsistencies. Companies have difficulty determining precisely whether or not their activities contravene a particular regulation. Agencies at all levels of government have rulemaking authority, resulting in regulations that are frequently contradictory. Finally, while there seems to be no shortage of rules and regulations, there are few procedures in place to appeal regulatory decisions.

Trading Rights: The Chinese government has moved to dismantle the near monopoly on import-export rights previously enjoyed by a few state-owned firms. Liberalization of the trading system was given major impetus in early 1999 when MOFTEC announced new guidelines allowing a wide variety of Chinese firms to register to conduct foreign trade. The guidelines allow, for the first time, both manufacturing and "non-production" firms to register for trading privileges. These guidelines were further loosened in 2001. Some goods such as grains, cotton, vegetable oils, petroleum and related products are imported principally through state trading enterprises. Firms with trading rights must undergo an annual qualifications test and certification process. Wholly owned foreign enterprises and individuals are still not permitted to directly engage in import activities, except to bring in material and equipment necessary for production.

As part of its bilateral WTO accession agreement, China committed to phase out many restrictions on trading rights. To meet these commitments, MOFTEC is working on guidelines to allow foreign companies, subject to certain restrictions, to engage directly in trade.

Local Agents: The ability of foreign firms to distribute directly their products in China is subject to strict limitations. In general, foreign firms are only allowed to sell products that they manufacture in China and must go through local agents to distribute imported goods. China has agreed to gradually eliminate distribution restrictions as part of its bid to join the WTO.

Import Substitution Policies: China committed to eliminate all import substitution policies and regulations as one of the conditions of the 1992 market access MOU, but periodically continues to issues such regulations. Recent examples-in the fields of generic medicines, telecom equipment, pharmaceutical pricing, power generation, and the automotive industry-have been the result of informal directives that have not been publicly announced.

Anti-Competitive Practices: China continues to struggle with economic inefficiencies and investment disincentives created by local protectionism, predatory pricing, preservation of industry-wide monopolies, and monopolistic practices designed to protect the state-owned sector. In some cases, industrial conglomerates operating as monopolies or near monopolies (such as China Telecom) have been authorized to fix prices, allocate contracts, and in other ways restrict competition among domestic and foreign suppliers. There are several existing competition laws, and China is drafting a new anti-monopoly law. However, existing laws are ineffective due to poor national coordination and inconsistent local and provincial enforcement.

Anti-Dumping Regulations: China is beginning to use safeguard and anti-dumping measures to control surges in imports of certain products. As trade barriers fall, China's beleaguered state-owned enterprises increasingly are interested in using anti-dumping measures to protect domestic markets. Since China first promulgated Anti-dumping and Anti-subsidy Regulations in 1997, China has imposed anti-dumping duties to control surges in imports of eight products. Without exception, the Chinese complainants in these cases have been large state-run firms, employing large numbers of workers, suddenly facing pressure from both domestic reform and imports. Foreign companies involved in the investigations have complained that pricing methodologies used in making the determination were flawed and that the Chinese investigators relied excessively on information provided by the Chinese petitioners. Indeed, China's anti-dumping procedures (for instance, China's methods of calculating prices and injury) appear incompatible with some aspects of the WTO Anti-dumping Agreement. Likewise, China's anti-dumping regime lacks the transparency called for by WTO rules. Trade officials responsible for investigating dumping allegations have, however, been working to increase transparency and address other technical issues.

Services barriers: China's service sector has been one of the most heavily regulated parts of the national economy - and one of the most protected. The service liberalization included in the bilateral WTO agreement will improve dramatically foreign access to this sector. The Chinese economy itself will benefit from the increased scope of services, professionalism and technologies that foreign investment in services will bring. There will be substantial efficiency gains to the domestic economy as well from increased foreign participation in financial, insurance, telecommunications, distribution and professional services, after sales service and repair businesses.

At present, however, foreign service providers are largely restricted to operations under the terms of selective "experimental" licenses. The strict operational limits on entry, and restrictions on the geographic scope of activities, severely limit the growth and profitability of these operations.

C. Import Documentation

Normally, the Chinese importer (agent, distributor or joint venture partner) handles documentation requirements. Necessary documents include the bill of landing, invoice, shipping lists, sales contracts, an import quota certificate for general commodities (where applicable), import licenses (where applicable), inspection certificate issued by the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ) or its local bureau (where applicable), insurance policy, and customs declaration form.

D. U.S. Export Controls

In April 2002, the Bureau of Export Administration changed its name to the Bureau of Industry and Security (BIS). The contact numbers remain the same, but the new website address is **http://www.bis.doc.gov/**.

The Tiananmen Sanctions of 1990 are still in effect and sharply curtail U.S. exporter opportunities to sell crime control equipment to China's police agencies and defense electronics equipment to the Chinese military. The Tiananmen Sanctions prohibit the export of items listed on the U.S. Munitions List and crime controlled items listed in the Export Administration Regulations (EAR).

The United States Government's Enhanced Proliferation Control Initiative (EPCI), requires the U.S. Department of Commerce (USDOC) and exporters to scrutinize end-users of U. S. exports of all kinds. This regulation requires a Validated License application if the exporter has "reason to know" that the end-users might be involved in missile, nuclear or chemical weapons proliferation. Periodically both the State Department and USDOC identify sensitive end-users and add them to the USDOC Entity List. For such identified firms, U.S. exports and U.S. origin re-exports require an individual validated license for virtually all shipments to these entities. The Entity List can be viewed at the USDOC Bureau of Industry and Security website at **http://www.bis.doc.gov/**.

On June 14, 2002, the BIS published the ¦Unverified List.² This is a list of companies where BIS was unable to conduct pre-license checks (PLCs) or post shipment verifications (PSVs) for reasons outside the control of the U.S. government. The list notifies exporters that involvement of a listed person as a party to a proposed transaction constitutes a ¦red flag² as described in the guidance set forth in Supplement No. 3 to 15 CFR part 732 of the EAR. Under that guidance, the ¦red flag² requires heightened scrutiny by the exporter before proceeding with a transaction in which a listed person is a party. Currently, nine Chinese companies are on the ¦Unverified List.² The ¦Unverified list can be viewed on the BIS website at **http://www.bis.doc.gov/**.

On January 24, 2002 and on May 16, 2002, the U.S. State Department published in the federal register sanctions against a total of 11 Chinese entities for violating the Iran Nonproliferation Act of 2000. These sanctions prohibit the sale of any item on the U.S. Munitions List, defense articles, defense services, or design and construction services controlled under the Arms Export Control Act to the listed entities. They also require a denial of new licenses and the suspension of existing licenses for the sale items controlled under the Export Administration Act (EAA) or the EAR to the listed entities. A list of the sanctioned entities can be found in the federal register publications.

A law passed by Congress in late 1997 requires that the U.S. Government do PSVs on all High Performance Computers (HPC) shipped to one of 50 countries including China. As of March 8, 2002, the definition of a HPC with respect to China is any computer with a MTOPS (million theoretical operations per second) level of 190,000 or greater. There is a USDOC requirement that a MOFTEC issued end-user certificate (EUC) must be obtained by the exporter before the computer is shipped to China. Ordinarily the computer importer or re-seller in China applies for this document and passes it to the exporter. For information on this regulation see the BIS web page at **http://www.bis.doc.gov/HPCs**.

USDOC Dual-Use Export Applications: A USDOC dual-use export license application that does not present to the USDOC reviewers serious Chinese end-user concerns is usually approved by the USDOC in about one week. In the case of a PLC requirement, USDOC requests MOFTEC's permission for a FCS officer from the Embassy to visit the site of an end-user to determine the bona fides of the end-user for the actual end-use of the product. This must be done before USDOC will act further on the export license application. The amount of time needed to complete the entire PLC process is usually two to three months. If the U.S. government is not permitted to conduct a PLC by the Chinese Government, an export license may not be issued.

If an exporter needs information on the regulations relating to the sale of its goods to China, they can request an advisory opinion from BIS. The advisory opinion will supply the exporter with a commodity classification and any restrictions on the export of that item to China. For more information about advisory opinions or U.S. dual-use export controls, exporters should view the BIS website at **http://www.bis.doc.gov/** or contact:

BIS Exporter Services Division
Washington, D.C. Tel: 202-482-4811 Fax: 202-482-3322
Western Regional Office Tel: 949-660-0144 Fax: 949-660-9347

U.S. Embassy-Beijing, Commercial Section
John Larkin, BIS Officer Tel: 8610-8529-6655 x811 Fax: 8610-8529-6558

The U.S. State Department's Office of Defense Trade Controls, under the Arms Export Control Act and the International Traffic in Arms Regulations (ITAR), controls the export of items listed on the U.S. Munitions List, including satellites and related technology. For information on State Department export licensing procedures see the relevant State Dept website of the Office of Defense Trade Controls at **http://www.pmdtc.org/**. A point of contact for State Department Licensing business advocacy matters at the State Dept is David Nobles, Tel. 202-647-1817. In the U.S. Embassy in Beijing, the point of contact for State Dept. Licensing matters is the Economic Section, Tel: 86-10-6532-3431, Fax 86-10-6532-6422.

E. Chinese Export Controls

Prohibited Exports: China maintains export bans and restrictive licensing procedures on certain items. Products banned from export include musk, copper, platinum, specified chemical compounds, and products whose export is banned under international treaties. Products subject to strict licensing controls include dual-use chemicals, chemical precursors, heavy water, and exports of fish, fresh vegetables and fruits to Hong Kong and Macao. Foreign-invested enterprises are restricted to exporting out of China only the products they manufacture.

The export licensing system is administered by MOFTEC and designated local offices. An export tendering system for a limited but growing number of products has also been introduced. Most licenses are valid for a single use within three months after issuance. For certain items, including 26 categories of agricultural and petroleum products, licenses are granted for six months with multiple use up to 12 times.

Other items that may not leave China include all items that are prohibited from being imported. (See next paragraph) In addition, manuscripts, printed matter, magnetic media, photographs, films or other articles, which involve state secrets; valuable cultural relics; and endangered animals and plants may not be exported.

On June 10, 1998 China promulgated Regulations on the Administration of the export of dual-use (military and civil) Nuclear Facilities and related technologies of the People's Republic of China. The export licenses required under these regulations are issued by MOFTEC.

Prohibited Imports: The following items are prohibited from entering China: counterfeit currencies and counterfeit negotiable securities; printed matter, magnetic media, films, or photographs which are deemed to be detrimental to the political, economic, cultural and moral interests of China; lethal poisons; illicit drugs; disease-carrying animals and plants; foods, medicines, and other articles coming from disease-stricken areas; old/used garments; and RMB. Food items containing certain food colorings and additives deemed harmful to human health by the Ministry of Health are also barred entry.

F. Inspection Standards

Import Commodity Inspection: Chinese law provides that all goods included on a published Inspection List, or subject to inspection pursuant to other laws and regulations, or subject to the terms of the foreign trade contract, must be inspected prior to importation, sale, or use in China. In addition, safety license and other regulations also apply to importation of medicines, foodstuffs, animal and plant products, and mechanical and electronic products.

Chinese buyers or their purchase agents must register for inspection at the port of arrival. The scope of inspection undertaken by local commodity-inspection authorities entails product quality, technical specifications, quantity, weight, packaging, and safety requirements. The standard of inspection is based upon compulsory Chinese national standards, domestic trade standards or, in their absence, the standards stipulated in the purchase or sale contract.

To meet the arrival inspection requirements, it is advisable that Chinese quality certification be obtained from Chinese authorities prior to shipment of goods to China. The quality and safety certification process appears to require extensive investigation and may be time-consuming. If your products are required to have this certification, contact the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) at 15 Fangcaodi Xijie, Chaoyang District, Beijing 100020 China; Tel: (86-10) 6599-4328 or fax: (86-10) 6599-4306. AQSIQ is a new Minister level entity whose creation was announced on April 17, 2001. AQSIQ is the result of a merger of the State Administration for Entry and Exit Quarantine and Inspection (SAIQ) and the China State Bureau of Quality and Technical Supervision (CSBTS). AQSIQ's new structure was published by AQSIQ in August 2001. AQSIQ has a website at **http://www.aqsiq.gov.cn/**. The website gives a wealth of information on China's import safety certification news, regulations, procedures, policies including reference to WTO accession, and a China AQSIQ organization chart. Under AQSIQ, two commissions have been created which report to the State Council on standards issues. These two commissions are the China National Certification Administration (CNCA) which oversees certification and the China Compulsory Certification (CCC) mark, and State Standardization Administration (SSA). AQSIQ is the primary Chinese government agency responsible for implementing and enforcing standards. However, since this is a new organization, AQSIQ is still in the process of formulating its procedures and methods. The U.S. Embassy will continue to follow this process.

A point-of-contact in the USDOC on standards is at the National Institute of Standards and Technology's Global Standards Program, (Mary H. Saunders, Director), 100 Bureau

Drive, MS 2100, Gaithersburg, Maryland 20899-2100, Tel: 301-975-6094, Fax: 301-975-4715, e-mail: gsp@nist.govm, website: **http://www.ts.nist.gov/gsp**. The point-of-contact at USFCS-Beijing John Larkin at Tel: 86-10-8529-6655 x811 or Fax: 86-10-8529-6558.

Security Software Certification: Hardware and software used for data security or encryption require special security software certification before they can be sold in China. This is separate from the AQSIQ quality assurance procedures. USFCS has an International Marketing Insight (IMI) on this matter published in June 1999 under the title "Security Software Certification."

The office that does this certification is the:

> China National Information Security Testing Evaluation and Certification Center (CNISTEC).
> No. 36 Xinjiang Gongmen
> Hai Dian District, Beijing 100091
> Tel: 86-10-6879-6484
> Fax: 86-10-6288-0411

Quarantine Inspection: A 1992 quarantine law provides the legal basis for the quarantine inspection of animals, plants and their products, as well as the containers and packaging materials used for transporting these items. The law also establishes the Chinese Animal and Plant Quarantine Administration (CAPQ), since folded into the General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ), which is a Ministerial Level agency created April 17, 2001, which reports to the State Council. AQSIQ has the responsibility to carry out import and export inspections.

The importer must submit an application in advance and the products must undergo the required inspections upon arrival in China. Contracts must specify the requirements for inspection under China's law, as well as indicate the necessary quarantine certificates to be issued by the appropriate agency in the exporting country. Catalogues of the Class A and B infectious or parasitic diseases of animals and the catalogues of the diseases, pests and weeds dangerous to plants are determined and announced by the AQSIQ. The U.S. Department of Agriculture maintains an office of the Animal and Plant Health Inspection Service (APHIS) in Beijing. The office is able to answer questions about Chinese quarantine laws and is the equivalent of AQSIQ. Contact Dale Maki, Tel: 86-10-6505-4575, Fax: 86-10-6505-4574. The APHIS website is **http://www.aphis.usda.gov/**.

G. Labeling and Marking Requirements

Under Chinese law governing safety and product-quality standards, certain imported commodities must be inspected and certified to be in compliance with compulsory national, domestic trade or contractually stipulated standards (see Section I). Once a quality certificate for a product is issued, a safety label can be affixed.

All products sold in China must be marked - in the Chinese language - with the relevant information. The State Administration for Quality Supervision, Inspection, and Quarantine requires imported and exported (but not domestic) food items such as candy, wine, nuts, canned food and cheese to have labels verified and products tested for quality before a good can be imported or exported. According to the Food Labeling Standards of China, imported foods shall have clear markings that indicate the country of origin in addition to the name and address of the general distributor that is registered in the country.

Import-Export Food Labeling Management Regulation: On April 1, 2000, a new national Chinese Import-Export Food Labeling Management Regulation that was announced on February 15, 2000, was put into effect for the implementation of food label standards.

The law supersedes both the Regulation on Management of Import-Export Food Labeling, announced on May 24, 1994, and the Regulation on Management of Labeling Inspection Attached to Import and Export Food, announced on April 21, 1994. This Chinese law requires that all packaged food products (except bulk) must have Chinese labels clearly stating the type of food, brand name, trademark, manufacturer's name and address, country of origin, ingredients, date of production and sell-by date. This law applies to imported as well as locally packaged products. English-language versions of the new regulations and other rules about food additives, such as Food Laws, Labeling Requirements, Food Additives Regulations, Pesticides and other Contaminants, Organic "Green" Food Standards, and Copyright/Trademark, will be obtained in the Food & Agricultural Import Regulations & Standards Report (FAIRS). This report can be accessed by going to **http://www.fas.usda.gov/**, or contact Audrey Talley, USDA/Foreign Agricultural Service, Tel: (202) 720-9408; fax: (202) 690-0677.

H. Special Import Provisions

Firms seeking the following exemptions should consult with Customs authorities for information on the procedures and to obtain copies of appropriate forms.

Representative Offices: Resident offices must submit a written application to Customs if they intend to import any personal effects or vehicles. Approval by Customs waives any relevant import license requirements and allows the office to import the equipment in reasonable amounts for office-use only.

Foreign-Invested Enterprises (FIEs): China permits four types of FIEs - equity joint ventures (EJVs), cooperative (contractual) joint ventures (CJVs), wholly foreign-owned enterprises (WFOEs), and foreign-invested joint stock companies. A complicated set of rules exempts selected FIEs from some Customs duties and VAT. Companies should consult the relevant regulations.

Processing Materials and Parts: Raw materials, components, spare parts, auxiliary materials, and packaging materials imported by FIEs for the production of goods which will be exported are exempt from customs duty and VAT. The materials and components must be processed into products and exported within one year from the date of importation. Bonded warehouses may be established within the FIE and are subject to supervision by Customs.

Warehouses: Goods that are allowed to be stored at a bonded warehouse, for up to one or two years, are limited to: materials and components to be used for domestic processing subject to re-exportation; goods imported under special Customs approval on terms of suspending the payment of import duties and VAT; goods in transit; spare parts for free maintenance of foreign products within the period of warranty.

At the end of the two-year period, the goods must be imported for processing and re-exported, licensed for import, or disposed of by Customs. Customs duties and VAT may be assessed depending upon the degree of processing done in China. Goods imported under normal import contracts are not allowed to be stored in bonded warehouses.

For more information on agricultural trade policy, go to **http://www.fas.usda.gov/** to access the latest China Annual Trade Policy Report.

I. Prohibited and Restricted Imports

The following items are prohibited from entering China: arms, ammunition, and explosives of all kinds; counterfeit currencies and counterfeit negotiable securities; printed matter, magnetic media, films, or photographs which are deemed to be detrimental to the political, economic, cultural and moral interests of China; lethal poisons; illicit drugs; disease-carrying animals and plants; foods, medicines, and other articles coming from disease-stricken areas; old/used garments; and RMB. Food items containing certain food colorings and additives deemed harmful to human health by the

Ministry of Health are also barred entry.

In addition, rules went into effect in June 1999, which further restrict or prohibit the importation of certain commodities related to the processing trade. Jointly issued by MOFTEC and the State Economic and Trade Commission, the "Catalogue of Commodities Which are Restricted or Prohibited from Importing for Use in the Processing Trade" is designed to shift the direction of china's processing trade toward handling commodities with higher technological content and greater value-added potential.

The catalogue identifies the following "prohibited commodities": used garments; used publications with licentious content; radioactive or harmful industrial waste; junk cars, used automobiles or components; seeds, seedlings, fertilizers, feed, additives, or antibiotics used in the cultivation or breeding of any export commodity. The catalogue lists seven general types of "restricted commodities": raw materials for plastics, polyester sections, raw materials for chemical fibers, cotton, cotton yarn, cotton cloth, and some steel products. U.S. firms should contact the China General Administration of Customs for guidance regarding the import of any of these types of products.

On November 1, China's State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ), the General Administration of Customs, and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) jointly issued a circular announcing new requirements for wood packaging materials used to ship goods to China from the United States and Japan. The new requirements apply to all shipments departing from the US or Japan beginning January 1, 2000, and target the elimination of pinewood nematodes, softwood pests that can destroy trees. Some 25-30% of US exports to China could be affected. The new requirements also call for a certification from Animal and Plant Quarantine Service (APHIS) that conifer softwood packaging has been heat-treated, or a label that the shipment contains non-conifer wood packaging, or non-wood packaging.

J. Customs Contact Information

> Beijing:
> General Administration of Customs
> Foreign Affairs Division
> 6 Jianguomenwai DaJie
> Tel: 86-10-6519-5243 or 6519-5399
> Fax: 86-10-6519-5394
> General Administration of Customs Website: **http://%20www.customs.gov.cn/**
>
> Shanghai Customs Website: **http://www.shcus.gov.cn/apec/index.jsp**
> Tianjin Customs Website: **http://tjc.online.tj.cn/**
> Guangzhou Customs Website: **http://haiguan.gzfeihua.com/customs.htm**

7. Investment Climate

A. Openness to Foreign Investment

China remains the leading developing country recipient of foreign direct investment (FDI), adding $46.9 billion in 2001 for a cumulative total of $395.2 billion. After remaining flat for 1999 and 2000, inward FDI growth surged 14.9% percent in 2001 as investment from other Asian economies recovered from a three-year slump and China's December 2001 entry to the WTO grew increasingly assured. The United States accounted for 9.5% of total FDI in China in 2001, making it the third largest source of new FDI, behind Hong Kong and the British Virgin Islands and ahead of Japan and

Taiwan. On a cumulative basis, the United States, with $34.5 billion through 2001, remains the second largest foreign investor after Hong Kong.

China's investment climate has changed dramatically in 23 years of reform and opening. In the early 1980's, China restricted foreign investments to export-oriented operations and required foreign investors to form joint venture partnerships with Chinese firms in order to enter the market. Since the early 1990's, however, China has allowed foreign investors to manufacture and sell a wide variety of goods on the domestic market. In the mid-1990's, China authorized the establishment of wholly foreign-owned enterprises (WFOEs), now the preferred form of FDI. However, the Chinese government's emphasis on guiding FDI into manufacturing has led to market saturation and over-capacity of some industries in that sector, while leaving China's service sector highly underdeveloped.

China became a member of the World Trade Organization (WTO) on December 11, 2001. Although the WTO is primarily concerned with trade, China also took on obligations to eliminate certain trade-related investment measures and to open gradually opportunities for foreign investment in specified sectors that had previously been off limits. New laws, regulations, and administrative measures aimed at implementing these general and sector-specific commitments are being issued at a rapid pace. Even so, issuance of some measures has been behind schedule. Prospective U.S. investors will want to examine carefully the particulars of these new measures as they emerge. The relaxation of absolute barriers to entry has not led to a rush of foreign investment in telecommunications service and banking, for example, due to remaining regulatory restrictions, high capital requirements, and foreign firms' judgments about market conditions.

Prior to China's WTO entry, many international firms allied with Hong Kong companies to gain access to the China market. As a result, Hong Kong is the largest ¦foreign investor^2 into Mainland China. By the end of 2001, the cumulative value of Hong Kong's direct investment in the mainland stood at $187 billion, accounting for over 47% of total FDI into China. In part, Hong Kong's investments in China outpaced investments by other economies because Hong Kong's entrepreneurs were willing to accept the risks of investing in developing China before other investors. As China's WTO entry makes the operating environment more transparent and predictable, however, Hong Kong's role will change. Shanghai is emerging as a major alternative to Hong Kong, although the limitations on convertibility of the Chinese currency will impede Shanghai's ability to supplant Hong Kong. (See separate report on Hong Kong's investment climate.)

A growing number of firms are opting to channel their China investments through vehicles registered in the freeports of British Virgin Islands, the Cayman Islands, and Western Samoa. In 2001, new FDI nominally from these three tax haven economies accounted for 14.1% of total new FDI. The ultimate origin of this FDI is unclear, but anecdotal information suggests that it includes investments from corporations headquartered in OECD economies, Taiwan, and even China itself.

Types of Foreign Enterprises in China: Among the three main foreign investment vehicles available to foreign investors, WFOEs are currently the most popular. New registration of WFOEs exceeded that of JVs for the first time in 2000. According to Ministry of Foreign Trade and Economic Cooperation (MOFTEC) statistics, WFOEs accounted for 59.8% of new projects in 2001. By value, WFOEs represented only 50.9%, owing to the relatively high value of investment in sectors such as natural resources and telecommunications in which joint ventures are mandated.

Encouraged versus Restricted Investment: China attempts to guide new foreign investment towards "encouraged" industries and regions. Over the past five years, China has implemented new policies introducing new incentives for investments in high-tech industries and in the central and western parts of the country in order to stimulate development in less developed areas. A new catalogue took effect April 1, 2002, listing sectors in which foreign investment would be encouraged, restricted or prohibited, replacing the December 1997 list. Unlisted sectors are considered to be permitted.

Among other things, the new catalogue aims to implement sectoral openings that China committed to in its WTO accession agreement, including banking, insurance, petroleum extraction, and distribution. According to an accompanying regulation, projects in "encouraged" sectors benefit from duty-free import of capital equipment and value-added tax rebates on inputs. The same regulation states that approval authority for "restricted" investments rests with the relevant central government ministry and may not be delegated to the local level. For a number of restricted industries, a Chinese controlling or majority stake is required. Industries in which foreign investment is prohibited include national defense, firearms manufacturing, most media content sectors, and biotechnology seed production.

Mergers and Acquisitions (M&A): China's inadequate merger laws and policies and the absence of property rights guidelines have posed substantial obstacles to foreign M&A activity in China. A simple share buy-out can occur under existing regulations, but it would be subject not only to the approval of all partners in a given venture but also to the supervising Chinese government agency. The Chinese government has approved a growing number of such deals. (Note: Foreigners may purchase shares in a small minority of Chinese companies listed on Chinese stock exchanges, but foreign portfolio investment is currently restricted to less than majority ownership.)

Regulations on the Merger and Division of FIEs were amended in November 2001, which improved the conditions for M&A activity among such enterprises. Cross-border acquisitions of domestic and foreign-invested firms by foreign parties have also started to become a reality. Cross-border M&A in China averaged $1.8 billion over the past five years -- accounting for 2.8% of global cross-border M&A in developing countries, based on data from the UN Conference on Trade and Development -- although a significant portion of these deals are thought to be carried out by overseas subsidiaries of Chinese firms. Several Chinese economists favor modernizing China's Company Law to accommodate more cross-border mergers and acquisitions.

Investment Incentives: China has developed and expanded a complex system of investment incentives over the last twenty years. The Special Economic Zones of Shenzhen, Shantou, Zhuhai, Xiamen and Hainan, 14 coastal cities, hundreds of development zones and designated inland cities all promote investment with unique packages of investment and tax incentives. Chinese authorities have also established a number of free ports and bonded zones. In recent years, SEZs have sought to enhance their autonomy while officials from inland China have pressed the central government to reduce SEZ privileges. To make progress toward a consistent national trade regime as part of its WTO accession, China has indicated that it will not introduce any new SEZ investment incentives and will decrease existing incentives over time.

The vast majority of FDI is directed to China's coastal provinces. Since 1979, 86% of cumulative FDI has gone to the 11 provinces and provincial-level cities along the eastern and southern coast. Nearly two-thirds of cumulative FDI receipts have gone to just five provinces: Guangdong (27.9%), Jiangsu (12.8%), Fujian (9.5%), Shanghai (8.3%). and Shandong (6.2%). Of these, FDI to only two of these destinations grew faster than the national average in 2001: Shanghai (up 35.8%) and Shandong (up 18.5%). All five areas have been particularly targeted by Taiwan and Hong Kong-based manufacturing, attracted by low labor costs for export production. Shandong has also been especially popular with Korean firms.

In 1999, China announced special investment incentives to attract foreign investors to its highly underdeveloped central and western regions. A national-level catalogue of "encouraged industries" for the interior provinces was published in July 1999, with a subsequent edition in June 2000. Individual provinces have also issued their own additional incentives.

Western China continues to struggle to attract significant amounts of FDI. China has touted a high-visibility "Great Western Development" campaign and included a variety of western development provisions in its 10th five-year plan. However, provincial and local governments in the western areas have generally tried to steer prospective investors to invest in failing state-owned enterprises (SOEs) in hopes of saving these large employers from bankruptcy. Prospective foreign investors have found these SOEs to be almost uniformly unattractive business propositions. Governments have not been as willing to promote some of the very promising private enterprises to foreign investors. The investment climate and business environment are also significantly less sophisticated and transparent than in the coastal areas, making it difficult for foreign investors to assess prospective investments. Finally, the most attractive export routes and domestic consumer market segments are concentrated in the East. As a result of these limitations, few foreign investors have made significant moves in the west, which took in only 4% of FDI received in 2001.

New FDI in China continues to flow overwhelmingly to the manufacturing sector, up nearly 20%. In 2001, two-thirds of FDI ($30.9 billion) went into manufacturing projects. In the initial phase of China's economic opening, manufacturing FDI was concentrated in low technology garments and other soft goods. Starting in the 1990s, however, China also began receiving growing amounts of capital-intensive (chemicals and petroleum processing) and technology-intensive FDI. The two fastest growing sectors for new FDI in 2001 were electronics and communications equipment (up 54%) and textiles (up 40%), demonstrating that China continues to gain competitiveness in higher technology products without giving up its dominance of the low end. For example, the top seven products exported by foreign-invested enterprises (FIEs) in 2001 consisted of $25 billion in garments, textiles and footwear and $25 billion in information technology and telecommunications goods.

With the exception of real estate, service sector investment has been minimal, mainly due to Chinese government restrictions. For example, education, culture, arts, radio, film, and television broadcasting collectively received only $35.3 million in 2001, down 34% from 2000. The ratio of manufacturing to service investment should dramatically shift over the coming several years as China phases out current barriers to foreign access to service industries as part of its World Trade Organization (WTO) accession agreement.

Foreign indirect investment (FII) still plays only a modest role in foreign investment in China, despite an extraordinary surge in 2000. In China, FII is essentially limited to foreign investors buying and selling shares of Mainland Chinese companies listed on foreign stock exchanges, primarily in New York (N-shares) and Hong Kong (H-shares). Mainland companies raised only $2.9 billion through overseas equity placements in 2001, after having taken in $21.9 billion in 2000, due both to company-specific delays and the cooling of global equity markets.

Foreign investors sometimes have to negotiate incentives and benefits directly with the relevant government authorities. Some incentives and benefits may not be conferred automatically. The incentives available include significant reductions in national and local income taxes, land use fees, import and export duties, and priority treatment in obtaining basic infrastructure services. Chinese authorities have also established special preferences for projects involving high-tech and export-oriented investments. Priority sectors include transportation, communications, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment, environmental protection and electronics. However, new regulations effective in 2002 provide that state-owned land use rights may be awarded only through tender.

China encourages reinvestment of profits. A foreign investor may obtain a refund of 40% of taxes paid on its share of income if those profits are reinvested in China for at least five years. Where profits are reinvested in high technology or export-oriented enterprises, the foreign investor may receive a full tax rebate. Many foreign companies invested in China have adopted a strategic plan that reinvests profits for growth and expansion.

As part of a national campaign to standardize tax treatment and increase collection rates, the State Administration of Taxation began work in 1998 on a planned unification of tax treatment for foreign and domestic firms. Concerns over the impact of the Asian financial crisis and, later, China's accession to the WTO led officials to delay the process. On several occasions in recent years, senior officials have announced the imminent reunification of tax rates or elimination of preferential tax treatment of foreign firms, but no definite action has occurred yet. Due to the need for National People's Congress approval, which takes a minimum of three months, there would be some advance warning of a unification of the tax rates, and any such unification would likely grandfather previously issued incentives.

China's tax incentive system is complicated and difficult to implement. Discrepancies between central, provincial and local government tax regulations hamper foreign investment, and these problems are particularly acute in remote and impoverished areas. Still, initial efforts at reform are beginning to take effect. Collection efforts have been centralized and the responsibility for assessment and filing of returns was shifted to the taxed enterprise in late 1999. A computerized standard reporting and payment procedure has been progressively expanded nationwide to reduce overpayments and loopholes.

National Treatment: China has committed to grant national treatment as part of its accession to the WTO. Not all of the thousands of government officials understand this concept, however, and implementation is likely to pose periodic problems. China is conducting training programs to educate central and local government officials on China's WTO obligations.

Basic Laws and Regulations Covering or Affecting FDI: The basic laws and regulations governing FDI in China are complex. A summary of some of the most important of those currently in effect is provided below.

The Chinese central government is currently reviewing and revising all laws, rules, regulations, and implementing regulations for consistency with new WTO commitments. The Chinese government acknowledges that it will take more time to promulgate all the new and revised laws, regulations, and implementing regulations, but is officially committed to meeting China's WTO obligations.

Chinese laws are typically drafted broadly, requiring reference to regulations and even more detailed implementing regulations for practical application. Under the terms of its WTO accession agreement, China obligated itself to publish all trade related laws, regulations, and other measures in advance for comment prior to implementation, and this obligation should encompass many regulations affecting foreign investment.

A potentially significant recent development is the emergence of industry associations distinct from government agencies. While it is to early to make conclusive judgments, some foreign observers are concerned that FIEs might be barred from membership in some industry associations and thus are excluded from the self-regulatory and standards setting functions these groups aspire to carry out.

Laws Affecting Foreign Enterprise Establishment:

Forms of Foreign Ownership: In most sectors where foreign investment has been allowed, FIEs can exist as WFOEs, equity joint ventures (EJVs), cooperative (or contractual) joint ventures (CJVs), or foreign-invested companies limited by shares (FICLS). The foreigners must own at least 25% of a firm for it to be considered an FIE for purposes of investment incentives and other measures. Under China's Company Law, foreign firms theoretically can now also open branches in China, but in practice only foreign financial institutions, namely commercial banks and non-life insurance companies, can establish branches. Foreign investors with multiple investments may also be eligible to establish holding (investment) companies.

Investment in WFOEs is now the most popular FDI vehicle in China. The WFOE Law was originally promulgated in 1986, and the law and implementing regulations have been amended five times. The WFOE Law was amended most recently in October 2000 and amended implementing regulations were promulgated in April 2001. The 2001 revisions of the WFOE Law and implementing regulations (State Council Order No. 301) amended or deleted sixteen articles. The revisions eliminated requirements for foreign exchange balancing, struck requirements for domestic sales ratios, removed or adjusted technology transfer and export performance requirements, and modified provisions on domestic procurement of raw materials. Several former requirements remain ¦encouraged,² however.

Under the amended WFOE Law, China may reject an application to establish a WFOE for five reasons: (1) danger to China's national security, (2) violation of China's laws and regulations,(3) detriment to China's sovereignty or public interest; (4) nonconformity with the requirements of the development of China's national economy; and (5) danger of environmental pollution.

The "Law on EJVs" was amended in March 2001, and implementing regulations were amended in July 2001. EJVs had historically been the main organizational form of FIEs in China but have fallen out of favor as dissatisfaction grew with respect to choice of local partners and with board decisions, capital formation, dividend distributions and other matters. EJVs declined further as restrictions on WFOEs loosened. China had traditionally favored investment in JVs, in hopes of rescuing poorly performing domestic SOEs. The March 2001 amendments remove the requirements that FIEs balance their foreign exchange receipts and expenditures. Many joint-venture contracts still contain a clause requiring such balancing, but under the terms of China's WTO accession such clauses are not to be enforced.

CJVs: The Law on CJVs was amended in October 2000. Although not requiring strict proportionality with respect to investment terms, return on capital, governance and dividend distribution, and thus more clearly resembling partnerships in the United States sense, CJVs have never been as popular as EJVs, in part because of investors' unfamiliarity with CJVs. The principal exception has involved infrastructure projects in which the foreign investor is allowed an early return on capital in consideration for relinquishing any claim to residual assets upon expiration of the CJV's term.

FICLS: FICLS are organized as shareholding companies in which foreign investors hold at least 25% of equity. They have been difficult to organize because of demanding regulatory preconditions and requirements for MOFTEC approval. They should become more popular as more Chinese companies organized as share companies establish market presence, reducing the benefit of forming joint ventures.

Branches: As stated above, branches in practice are permitted only in certain financial industries.

Representative Offices: Foreign firms may also establish representative offices in China, but these are prohibited from engaging in any profit-making activities. Foreign law firms, however, are allowed to operate only through representative offices and are an exception to the prohibition on profit-making activities.

Holding Companies: There has been some relaxation of the restrictions on business scope and operations of holding companies, although minimum capital requirements normally make them suitable only for corporations with several sizeable investments to manage. Distribution and trading functions of holding companies are scheduled to be phased in over a five-year period under WTO. However, some restrictions on services provided by holding companies and on their financial operations and ability to balance foreign exchange internally will remain even after full implementation of the WTO commitments. Profit and loss consolidation within holding companies is still prohibited.

Regulations and periodic updates on China's investment projects and conditions can be found on MOFTEC's website: **http://www.moftec.gov.cn/**.

Other laws relating to investment include the following:

Contract Law: China's Contract Law went into effect on October 1, 1999. The NPC passed the Law to unify three earlier laws covering domestic economic contracts, foreign-related economic contracts, and technology contracts, and to address the rising use and complexity of contracts in China.

The new Contract Law moves China closer to international legal norms and to greater legal transparency. It encourages stronger contractual compliance by providing legal recourse - although enforcement of judgments will continue to be a problem. Certain contracts involving foreign firms (including those involved in establishing a FIE, many technology import contracts, and infrastructure project contracts) are still subject to government approval. Certain contracts, such as foreign loan contracts, other technology import contracts, and real estate contracts, must be registered but are not subject to approval requirements.

Securities Law: The Securities Law, effective on July 1, 1999, codifies and strengthens the administrative regulations that govern the underwriting and trading of corporate shares, as well as the activities of China's stock exchanges in Shanghai and Shenzhen. The Securities Law does not distinguish between SOEs and non-SOEs. In practice, however, few non-SOEs have been allowed to sell "A" shares. "A" shares are local currency shares. "B" shares, denominated in foreign currency, were originally for sale only to foreign legal persons and continue to be subject to separate administrative regulations. In February 2001, the authorities opened the "B" share market to Chinese citizens with legally obtained foreign currency holdings. Despite press reports indicating the "A" and "B" share markets will gradually be integrated, the exact timing of this move - which would be closely linked to changes in China's foreign exchange regime - remains unclear. The Chinese authorities are considering transitional arrangements such as the designation of "qualified foreign institutional investors" which could provide foreigners some access to the "A" share market without requiring full convertibility of the Chinese currency, which at present is freely convertible only on the current account.

Foreign-Invested Venture Capital Firms: With provisional regulations that took effect September 1, 2001, China permitted the establishment of foreign-invested venture capital firms, including WFOEs, but the firms are limited in scope to encouraged and permitted high-technology sectors. An April 2001 regulation barred securities firms (including foreign-invested firms) from the private equity business. Chinese laws concerning foreign private equity firms set limits on corporate structure, share issuance and transfers, and investment exit options. Investment exit problems, especially the difficulty of listing on China's stock exchanges, coupled with the bureaucratic approvals required to list overseas, have limited interest in establishing China-based private equity investment. As a result, most foreign private equity investments in China are actually housed in offshore investment entities, which, as with other offshore FDI, can be transferred without Chinese Government approval.

Tendering and Government Procurement Laws: Concerns over the WTO consistency of the draft tendering law led the National People's Congress, on April 9, 1999, to make a surprise announcement that it had decided to move key sections relating to government procurement into a separate law. The tendering law (which now governs only state administered capital construction and infrastructure projects) was finalized in 1999, and the State Council issued "Provisions for the Administration of Government Purchases." The NPC approved the new government procurement law in June 2002; the law takes effect January 1, 2003, replacing the "Provisions."

The new Government Procurement law (like its interim predecessor) establishes rudimentary criteria for the qualification of domestic and foreign suppliers and various categories of procurement, as well as broad standards for publicity, notification, bid scheduling, sealed bidding and bid evaluation. Initial foreign reactions to the new law have been mixed. The law is aimed at implementing one of China's WTO entry commitments by clarifying that purchases by SOEs do not constitute government procurement, thereby removing the bulk of commercial value from this procurement system. However, the legislation mandates domestic procurement unless the goods or services cannot be procured on reasonable commercial terms within China.

Investment Screening Procedures: Potential investment projects usually go through a multi-tiered screening process involving the foreign investment department (MOFTEC or a provincial equivalent). The process frequently also involves the development planning department (the State Development Planning Commission, SDPC, or a provincial equivalent) and the department responsible for the industrial sector of the project.

The first step is approval of the project proposal. The central government has delegated varying levels of approval authority to local governments. Until a few years ago, only the Special Economic Zones (SEZs) and open cities could approve projects valued at up to $30 million. Such approval authority has now been extended to all provincial capitals and a number of other cities throughout China. Most other cities and regions are limited to approving projects valued below $10 million. With certain exceptions involving areas such as municipal infrastructure projects, FDI exceeding these limits must be approved by MOFTEC and the SDPC. If an investment involves $100 million or more, it must also obtain State Council approval. The approval process for projects over $30 million has become less of an obstacle than in the past. Sometimes the political relationship between China and the home country of the foreign investor influences the approval process.

Research and Development: Poor links among government, university and industry researchers make it very difficult for China to efficiently utilize its many brilliant scientists and engineers. Much of China's top scientific talent is not in universities but in a government bureaucracy (the Chinese Academy of Sciences) modeled after the USSR Academy of Sciences. Young scientific and engineering talent often flows to the information industry and biotechnology sectors. Since the late 1980's, China has directed an increasing proportion of government research funds through peer review mechanisms at the National Natural Science Foundation of China (**http://www.nsfc.gov.cn/**) and the Ministry of Science and Technology (**http://www.most.gov.cn/**) in order to achieve better results from research funding. Some Chinese government programs such as "Torch" promote scientific research and its commercial applications, yet the investment return on research and development, especially in the state sector, remains low. The central and local Chinese governments have also strongly promoted science parks which, in actuality, often just serve as low-tech assembly centers.

Despite efforts since the early 1990's to push technical institutes towards the market, the political and economic structures of the old "planned economy" are still important obstacles. Lack of familiarity with intellectual property protections discourages Chinese companies from investing in research. Patent, copyright, and trademark infringement often prevent companies from recapturing their investment in product research and development. Furthermore, technology utilized by SOEs tends to lag far behind that of the growing private sector, in part because SOEs lack incentives to conduct research and development activities. There is a broad consensus among Chinese scientists and Chinese leaders that more reform and greater IPR protection are needed. China continues to reform its science and technology system in order to create incentives for innovation and to link science and technology research work more closely to the needs of the market.

Foreign companies' research and development centers in China have often focused on product localization. More recently, several companies, including Microsoft and Motorola, have established research centers in China. The Chinese government has welcomed the establishment of these centers although some Chinese critics worry that the centers will create an "internal brain drain" of talent away from Chinese companies and research institutions to foreign companies.

B. Conversion and Transfer (Foreign Exchange) Policies

In periods when foreign currency was relatively scarce in China, profits that were not generated in foreign exchange could only be repatriated with great difficulty. Since 1994, however, China's foreign exchange reserves have grown rapidly (over $230 billion in mid-2002), and FIEs have generally enjoyed liberal access to foreign exchange. On December 1, 1996, China announced the full convertibility of its currency on the current account (for trade in goods, services and remittance transactions, including profits). To prevent rampant fraud, in 1998 China tightened the scrutiny of underlying documentation. Bureaucratic procedures as authorities implemented the new regulations created difficulties for many foreign and domestic companies requiring hard currency to complete their transactions. Foreign bank branches are allowed to engage in foreign currency business according to the same rules as Chinese banks. Under the terms of China's WTO entry, foreign bank branches and foreign-invested banks will become eligible to engage in local currency operations in stages over several years.

All FIEs in China are entitled to open and maintain foreign exchange accounts for current account and capital account transactions. In order to do so, an FIE must first apply to China's State Administration of Foreign Exchange (SAFE) for permission. After SAFE grants permission for the account, it establishes a limit, based on the FIE's anticipated foreign exchange operational needs, beyond which foreign exchange must be converted to local currency. Foreign representative offices and individuals may also open such accounts. No limits are placed on the amount such accounts can hold, though reports for transactions involving more than $10,000 must be filed by a bank. In general, the restrictions on FIE accounts are less onerous than for wholly Chinese-owned firms. Establishing foreign exchange accounts for capital account transactions involve more complex reporting and qualification requirements.

C. Expropriation and Compensation

Chinese law prohibits nationalization of FIEs, including investments from Hong Kong, Taiwan, and Macau, except under "special" circumstances. The Chinese government has not defined "special" circumstances although officials claim that "special² circumstances include national security considerations and obstacles to large civil engineering projects. Chinese law calls for compensation of expropriated foreign investments but does not define the terms of compensation.

There have been no cases of outright expropriation of foreign investment since China opened to the outside in 1979. However, the State Department believes that there are several cases that may qualify as expropriations under Section 527 of the FY94-95 Foreign Relations Authorization Act.

D. Dispute Settlement

Arbitration: Although China is a member of the International Center for the Settlement of Investment Disputes (ICSID) and has ratified the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (a.k.a. the New York Convention), it places strong emphasis on resolving disputes through informal conciliation and mediation. If it is necessary to employ a formal mechanism, most parties prefer arbitration to litigation. The authorities greatly prefer arbitration through institutions in China. Most foreign investors consider arbitration as a final option and have found it to be time-consuming and unreliable.

Most Chinese parties and form contracts propose arbitration by the China International Economic and Trade Arbitration Commission (CIETAC). During the past few years, some foreign parties have expressed satisfaction with and obtained favorable rulings from CIETAC. Difficulties in other cases have led several Western participants and panel members in CIETAC proceedings to raise concerns about CIETAC's procedures and effectiveness. In one instance, a respected American member of an arbitration panel threatened to resign from CIETAC over alleged procedural irregularities during consideration of a case. For contracts that involve a purely foreign party (i.e., not an FIE), offshore arbitration may be adopted. If CIETAC arbitration is chosen, a panel with a foreign arbitrator is also possible. Provinces and municipalities also have their own arbitration institutions. Some foreign investors have been favorably impressed with the Beijing Commission despite its lack of foreign arbitrators.

Enforcement of arbitral awards is sporadic. Sometimes, even when a foreign company wins in arbitration, the local court may delay or fail to enforce the decision. Even when the courts do attempt to enforce a decision, local officials often ignore court decisions with impunity.

There have also been investment dispute cases in which local authorities have intervened on the part of a Chinese company in a manner considered unfair and capricious by the foreign investor. For example, local courts have occasionally intervened to prevent the sale or transfer of foreign-owned assets, pending resolution of a commercial dispute between a foreign company and a Chinese company. In general, most cases have been resolved through negotiation between the commercial parties and/or intervention of central authorities.

Legal System: Chinese society is in transition from rule by man to rule of law. Most laws are general; details are specified in implementing regulations. Many foreign businesses report that Communist Party and government officials at times interfere in court decisions. China's top leaders undoubtedly play a major role in deciding sensitive political cases. China's legal system is civil law in origin but now includes some common law elements, although it places relatively less emphasis on legal precedent.

The 1979 "Organic Law of the People's Courts of the People's Republic of China" authorized establishment of economic courts at China's National Supreme Court and three levels of provincial courts. The economic courts are given jurisdiction over contract and commercial disputes between Chinese entities; trade, maritime, intellectual property and insurance; other business disputes involving foreign parties; and various economic crimes including theft, bribery, and tax evasion. In 1994, the lowest level of provincial courts started to try economic cases involving foreign parties. Foreign lawyers cannot act as attorneys in Chinese courts, but may observe proceedings informally. Over the past three years, the United States has been working with China on projects relating to commercial and economic law under the umbrella of the U.S.-China Joint Committee on Commerce and Trade.

Bankruptcy and Creditors' Rights: China's provisional bankruptcy law, passed in December 1986 and applicable only to SOEs, provides for creditors' meetings to discuss and adopt plans for the distribution of bankrupt property. The resolutions of creditors' meetings, which are binding on all creditors, are adopted by a majority of the attending creditors, who must account for more than half of the total amount of unsecured credit. Other laws govern bankruptcy by non-SOEs, but bankruptcy law as a whole is incomplete, inefficient, unprofessional, and subject to gross inequities.

Even Chinese officials contemplating broad enterprise reforms recognize the inadequacy of China's current provisional bankruptcy law. A unified enterprise "Bankruptcy Law" is in draft but is still in relatively rough form, in part because the authorities remain reluctant to address the social consequences of bankruptcy.

A major problem for Chinese commercial banks is the formal and informal constraints on liquidating the assets of non-performing SOE loans. Notably, local political leaders, through the ubiquitous apparatus of the Communist Party, continue to control or to influence not only the courts but also the state-owned banks themselves and can effectively block efforts to dispose of SOE assets. The failure of Guangdong International Trust and Investment Company (GITIC) in 1998 highlighted the need to develop specialized rules for non-bank financial institutions, which have since been promulgated.

For the time being, however, the Office of the National Leading Group for Merger, Bankruptcy and Re-employment and the State Economic and Trade Commission (SETC) have the final say with regard to large industrial SOE bankruptcies.

In October 1995, China put into effect a "Security Law," the first national legislation covering mortgages, liens, pledges, and guaranties. The Law defines debtor and guarantor rights and provides for mortgaging of property, including land and buildings, as well as other tangible assets such as machinery, aircraft, and other types of vehicles. While some areas of the Law remain unclear - such as how the transfer of property under foreclosure is effected - the law represents an important step forward. Chinese commercial banks have successfully repossessed vehicles from delinquent borrowers. Banks may welcome foreign investors to take over non-performing loans and the underlying collateral, but implementing regulations have yet to be promulgated.

E. Performance Requirements/Incentives

China has agreed to implement the Agreement on Trade-Related Investment Measures (TRIMs) upon WTO accession. China has committed to eliminate and cease enforcing trade and foreign exchange balancing requirements and local content and performance requirements. It has also agreed not to enforce contracts imposing these requirements. China has also committed to enforce laws or provisions relating to the transfer of technology or other know-how only if they are in accordance with WTO rules on protection of intellectual property rights (IPR) and TRIMS.

Export Performance Requirements: Export performance requirements are inconsistent with WTO principles. China has said it will not enforce export performance requirements in private contracts. However, in the past, MOFTEC and the State Development Planning Commission (SDPC) have strongly encouraged contractual clauses stipulating export requirements.

Local Content: Chinese regulations grant FIEs freedom to source inputs both in China and abroad, though priority is given to Chinese products when conditions are equal. Chinese regulations forbid "unreasonable" geographical, price, or quantity restrictions on the marketing of a licensed product. FIEs, thus, retain the right to purchase equipment, parts, and raw materials from any source.

Chinese officials, however, still encourage localization of production. Investment contracts often call for foreign investors to commit themselves gradually to increase the percentage of local content. In addition, officials carefully examine the sourcing of inputs at various stages in the approval process for FIES. Effective implementation of China's WTO commitments should affect this bias.

Technology Transfer: FIEs often involve the transfer of technology through a licensing agreement, the transfer of technology from a third party, or the transfer from the foreign partner as part of its capital contribution. China has committed to enforce only those laws or other provisions relating to the transfer of technology or other know-how if they are in accordance with WTO provisions on protection of IPR and TRIMS, including a prohibition on technology transfer as a condition to approval. Regulations promulgated in 2001 have generally improved the regulatory environment for foreign technology providers. Despite these commitments, foreign investors may still encounter pressure to transfer technology.

Employment of Host-Country Nationals: Rules for hiring Chinese nationals depend on the type of establishment. Although FIEs are not required to nominate Chinese nationals to their upper management, in practice, expatriate personnel normally occupy only a small number of managerial and technical slots. In some ventures, there are no foreign personnel at all.

The amended EJV Law provides that the joint venture partners will determine, by consultation, the Chairman and Vice-Chairman. If the foreign side assumes the chairmanship, the Chinese party must have the vice-chairmanship, and vice-versa.

While FIEs are free to recruit employees directly or through agencies, representative offices of foreign companies must hire all local employees under contract with approved "labor services companies." These foreign companies pay the contracted local employees' salary directly to the "labor services companies" that, in turn, give only a portion of the salary to the contracted employees. The employees remain technically employed by the labor services company.

F. Right to Private Ownership and Establishment

In the past, China restricted private ownership and establishment of business enterprises, particularly in the service sector. In 1999, China amended its constitution to provide a legal basis for private sector development. China has committed to reduce over time many restrictions on the private sector upon accession to the WTO. Nevertheless, some sectors - insurance, for example - will retain many restrictions, and some of these discriminate against foreign legal and natural persons.

G. Protection of Property Rights

Land: Chinese law provides that all land is owned by "the public," and individuals cannot own land. However, consistent with the policies of reform and opening to the outside, legal and natural persons, including foreigners, can hold long-term leases for land use. They can also own buildings, apartments, and other structures on land, as well as own personal property.

Intellectual Property Rights: Overview

Chinese leaders have acknowledged that protection of patents, copyrights, trademarks, and specialized intellectual property such as domain names and plant variety rights is needed to promote a "knowledge-based economy" in China. China has committed to full compliance with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) upon accession to the WTO. China has strengthened its legal framework considerably, amending its patent law in 2000 and its trademark and copyright laws in 2001, as well as issuing judicial interpretations and other administrative regulations to make them more compliant with the TRIPS Agreement and international standards. In spite of steady, significant progress in improving its intellectual property legal and regulatory regime, IPR protection in China remains weak. Trademark and copyright violations are blatant and widespread. While Chinese officials are increasing enforcement efforts, IPR violations, including growing exports of counterfeit products, continue to outpace enforcement.

Membership in International IPR Organizations:

China is a member of the World Intellectual Property Organization (WIPO), Paris Convention for the Protection of Industrial Property, Berne Convention, Madrid Trademark Convention, Universal Copyright Convention, and Geneva Phonogram Convention. China's amended copyright law is not fully consistent with the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. The U.S. Government believes that China's signing these treaties would further indicate China's intent to provide a high level of IPR protection.

IPR Enforcement:

The United States recognizes the enforcement efforts that China has made to date, but the continuation of unacceptably high levels of piracy and counterfeiting require more effective and coordinated action. Enforcement of existing IPR regulations is uneven and is sometimes impeded by local interests.

Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products.

The Business Software Alliance estimates that more than 90% of business software used in China is pirated. Consumer goods companies report that, on average, 20% of their products in the Chinese marketplace are counterfeits. Chinese companies experience similar, or greater, problems with piracy and counterfeits.

While export of pirated copyrighted products has largely subsided, such products are still being produced locally and imports of pirated products from other economies continue to flood the Chinese market. The levels of optical media piracy (CDs, VCDs, and DVDs) in China remain at extremely high levels in the domestic market, and China remains a center for entertainment software piracy and the production of pirated cartridge-based video game products. In particular, end-user piracy of business software within the government remains largely unabated despite issuance of directives to government ministries to use only legitimate software. In addition, the piracy of journals and books is a significant problem that has only now begun to show some improvement. The counterfeiting of goods bearing American trademarks, including some well-known marks, by Chinese companies remains a major problem. Despite some enforcement efforts against such activities, large volumes of counterfeit goods, often of well-known products, continue to be produced and sold in China and to be exported to many other countries.

While industries report improved cooperation with administrative enforcement agencies in regard to raids, the administrative penalties for IPR violations, often no more than confiscation of the counterfeit products or nominal fines, are generally insufficient to deter counterfeiters. Very few cases are referred to criminal prosecution as the threshold for initiating criminal cases for IPR infringements remain very high. China's criminal sanctions against IPR violations are seldom used, in part because of restrictions on types of admissible evidence and cumbersome procedures.

Combating IPR violations in China is a long-term, multifaceted undertaking. China has established special IPR courts in all provinces and major cities. Judges in Chinese courts are charged with fact-finding and have greater discretion in the adjudication of cases than those in the United States. However, the lack of legal training of many trial court judges undermines the effectiveness of these courts. The U.S. Government and U.S. companies have provided resources for training judges and other enforcement officials. Chinese authorities are attempting to address the lack of training of enforcement officials by establishing IPR law centers at Beijing University, Qinqhua University, and People's University. Chinese IPR professionals are also studying in foreign countries. The United States and the European Union have made IPR - and commercial dispute resolution - a key feature of "Rule of Law" discussions with Chinese authorities.

H. Transparency of the Regulatory System

China's legal and regulatory system lacks transparency and consistent enforcement despite the promulgation of thousands of regulations, opinions, and notices affecting foreign investment. Although the Chinese government has simplified the legal and regulatory environment for foreign investors in recent years, China's laws and regulations are still often ambiguous. Foreign investors continue to rank the inconsistent and arbitrary enforcement of regulations and the lack of transparency as two major problems in China's investment climate. No prospective foreign investor should venture into the China market without due diligence and professional advice.

In accordance with China's WTO commitments, the State Council's Legislative Affairs Office recently has stated that all of China's foreign trade-related and foreign-investment related laws, regulations, rules, and policy measures would be published. It further announced that China would use "proper ways and means" to help other WTO members and other pertinent individuals and enterprises understand those rules and regulations. The Legislative Affairs Office acknowledged that, in the past, some departments and localities relied on their own internal documents to conduct business. Some even issued documents under their own "internal control" and resorted to "disguised forms of market blockades" and local protectionism. The State Council has announced that it is committed to stopping such practices in order to avoid international disputes.

Chinese Government agencies have also began to publish trade-related regulations in draft for public comment, including comments from foreigners. This process, required by China's WTO accession agreement, is still in its early stages. Comment periods are sometimes extremely brief, and it is not always clear how much impact public comments have on the final regulations. Not every regulation has been released for public comment, and China still lacks a single source for such public releases of draft documents, along the lines of the U.S. Federal Register. Also, comments by interested parties do not become part of a public record.

I. Capital Markets and Portfolio Investment

The development of China's domestic capital markets has not kept pace with economic needs. Two stock exchanges have been established in Shanghai (in November 1990) and in Shenzhen in southern China's booming Guangdong Province (July 1991). Other regional "securities exchange centers" have been closed by the China Securities Regulatory Commission (CSRC). The Securities Law took effect in June 1999. The Law includes tougher penalties for insider trading, falsifying prospectuses and financial reports, and other forms of fraud. The CSRC lacks experienced personnel and have turned to the United Kingdom and other countries for more training. China's stock markets are gradually adopting accounting standards closer to those in use in other markets.

Although FIEs, in theory, may apply for permission to raise capital directly on China's stock and bond markets, the approval process is difficult. In the case of shares, the CSRC has indicated that it plans to treat FIEs the same as domestic firms.

The state banking sector dominates China's capital markets and in the past generally channeled funds to SOEs on the basis of public policy rather than market considerations. Other domestic firms must find different sources of financing, including direct investment, gray-market sales of stock, and borrowing from other firms or non-bank institutions.

China's progress in reducing political interference in the banking system has been mixed. With the creation of three policy banks in 1994 - the Import-Export Bank of China, the China Development Bank (formerly the State Development Bank of China), and the Agricultural Development Bank - China attempted to make a clear division between policy and commercial lending. The government has directed these policy banks to lend to commercially unattractive endeavors such as infrastructure development and government agricultural procurement. The authorities, meanwhile, have encouraged China's commercial banks to improve their loan portfolios by increasing the proportion of their lending to small and medium-sized enterprises, including private firms. Lending to individuals for housing mortgages, purchase of consumer durables, and education expenses has also increased. Nevertheless, China's commercial banks, most of them state-owned, continue to carry a heavy percentage of non-performing assets. - with unofficial estimates ranging from 40% to 50% of the total. Large SOEs continue to receive the bulk of commercial bank lending, although local financing of FIEs is becoming more widely available.

In 1998, the authorities - alarmed by the Asian financial crisis - took steps to reduce financial risk in the banking system. The People's Bank of China (China's central bank) reorganized its regulatory structure along regional lines, and the Communist Party created its Central Financial Work Commission primarily to oversee the selection of managerial personnel in the country's financial institutions. Both measures effectively reduced the influence of local political leaders over credit decisions, a major cause of China's abundance of non-performing loans. In 1999, the government also set up four asset-management companies to take over a portion of the bad loans issued by the main state-owned commercial banks in order to help them meet international capital adequacy standards. Most observers believe it will take many years for China to re-capitalize its banks along international lines.

Foreign firms that need working capital, whether foreign exchange or local currency, may obtain short-term loans from China's state-owned commercial banks. However, priority lending is often given to investments that bring in advanced technology or produce goods for export. Since 1998, Chinese interest rates have generally been lower than overseas, making it more attractive to explore onshore financing. Foreign-invested firms, like domestic firms, must register all foreign loans with the State Administration for Foreign Exchange (SAFE). Along with the People's Bank of China, SAFE regulates the flow of foreign exchange into and out of China.

In 1996, qualifying foreign bank branches in the Pudong area of Shanghai were allowed to engage in local currency business for the first time although this was mainly limited to providing services to FIEs. In 1998, China expanded local currency business to foreign banks based in Shenzhen and widened their client base to include several nearby provinces (Zhejiang and Jiangsu for Shanghai; Guangdong, Guangxi, and Hunan for Shenzhen). Under the terms of China's WTO accession protocol, China committed to end all geographic restrictions on business by foreign banks by January 1, 2005. As of January 1, 2002, the authorities have begun to broaden the geographical base for issuing RMB business licenses.

J. Political Violence

Corruption, SOE layoffs, and economic disparities between rural and urban areas and between coastal and interior regions have fueled resentment among segments of the Chinese populace. As China continues to restructure SOEs and makes the difficult and still incomplete transition to an entirely new social security system, unemployment and other social pressures have risen. As a result, urban worker protests have increased. Most of these have been fairly small and resolved peacefully. However, some protests have been large and persistent, such as those by thousands of workers in China's northeastern provinces in March and April 2002. As in years past, there were a number of isolated violent actions by disgruntled individuals - in some cases motivated by personal rather than political reasons - who damaged public buses, markets, and railroad tracks. More worrisome, though still relatively rare, were incidents of worker violence against owners or managers. Declining rural incomes have contributed to protests by farmers in rural areas. Local authorities have generally dealt with urban and rural protests in a peaceful manner and have not resorted to violence.

Following NATO's mistaken bombing of China's Belgrade embassy in 1999, violent protests erupted at U.S. diplomatic facilities and a few American fast-food franchises throughout China. Soon after the bombing, government-controlled media discouraged protests or acts of violence against foreign investors. Most foreign investors in China believe that the chances of political violence are low because the government is able and willing to repress any sizeable anti-government protests.

K. Corruption

Corruption remains widespread in China. Although the government launched a high profile anti-corruption campaign, these efforts are hampered by the lack of truly independent investigative bodies. Numerous senior provincial and municipal officials came under scrutiny, but there are widespread reports that more senior officials and their family members used their connections to avoid prosecution. Banking and finance are among the sectors most afflicted by corruption, as are government procurement and construction projects. Premier Zhu Rongji has criticized corruption in the construction industry because of the safety hazards created by shoddy construction.

Offering and receiving bribes are both crimes under Chinese law. Bribes cannot be deducted from taxes. Based on surveys reported in the Western media and views expressed by foreign business people and lawyers in China, it is clear that U.S. firms consider corruption in China a hindrance to FDI.

Three different government bodies and one Communist Party organ are responsible for combating corruption in China: the Supreme People's Procuratorate, the Ministry of Supervision, the Ministry of Public Security, and the Communist Party Committee for Discipline Inspection. The Procuratorate and the Ministry of Public Security are responsible for investigating criminal violations of China's anti-corruption laws, while the Ministry of Supervision and the Party Discipline Inspection Committee enforce Government ethics and Party discipline.

The United States has provided some enforcement-related anti-corruption training to Ministry of Public Security, Ministry of Supervision, and Supreme People's Procuratorate officials. NGOs such as Transparency International are also exploring opportunities for cooperative programs to reduce corruption.

L. Bilateral Investment Agreements

China has entered into bilateral investment agreements with at least 94 countries, more than any other developing country, according to the UN Conference on Trade and Development. Agreements have been signed with Japan, Germany, the United Kingdom, France, Italy, Thailand, Romania, Sweden, the Belgium-Luxembourg Economic Union, Finland, Norway, Spain, Canada, Austria, and others. The provisions of these agreements cover such issues as expropriation, arbitration, most-favored-nation treatment, and transfer or repatriation of proceeds.

The United States does not have a bilateral investment treaty with China, although the two governments did sign an agreement on investment guaranties that entered into force October 30, 1980. Any American investor investing in China should make sure that expropriation and arbitration are covered in the terms of the contract.

M. OPIC and Other Investment Insurance Programs

In the past, OPIC had a very active program in China. The United States has suspended OPIC's program in China since the Tiananmen Incident in June 1989, first by Executive Order, and then by the legislative sanctions that took effect in February 1990. OPIC continues to honor outstanding political risk insurance contracts. At the end of 1990, 31 U.S. investments with approximately $300 million had OPIC political risk insurance. OPIC programs remain suspended in China due to U.S. foreign policy concerns, the terms of the sanctions legislation enacted, and the need for improved worker rights.

Although OPIC insurance is unavailable, the Multilateral Investment Guarantee Agency (MIGA), an organization affiliated with the World Bank, can provide political risk insurance for investors interested in investing in China. Some foreign commercial insurance companies also offer political risk insurance, as does the People's Insurance Company of China (PICC). Foreign political risk insurers have noted a decline in the past couple of years in new business in China. One possible explanation is that the political turmoil elsewhere in China in the wake of the Asian financial crisis reduced the perception of risk with respect to China.

N. Labor

Labor Availability: FIEs can integrate a joint venture partner's work force, hire through a local labor bureau or job fair, advertise in newspapers, or rely on word of mouth. Representative offices must hire their local employees through a labor services agency.

Skilled managers, especially those with marketing skills, are often in short supply although many companies have found an abundance of talented and highly-motivated recent university graduates. Experienced managers in FIEs command salaries far greater than their counterparts in Chinese enterprises, making localization an increasingly expensive proposition for many companies. Finding and keeping engineers and technicians can also be difficult. Shortages of skilled labor are, at times, especially acute in south China due to the relative dearth of higher learning institutions in that region. Many Chinese workers move rapidly from job to job within the foreign-invested and growing private sectors.

Compensation:

Workers are paid a salary, hourly wages, or piecework wages. The provision of subsidized services, such as housing and medical care, is common, and compensation beyond the basic wage constitutes a large portion of a venture's labor expenses. With recent moves by China to reform the housing system and promote home purchases through a mortgage system, employer-provided housing has been decreasing. However, enterprises that merge with existing SOEs may still be required to provide workers dormitory housing. New enterprises, rather than providing housing, pay into a housing fund that may amount to as much as 10% of payroll. Because regulations on non-wage compensation differ by locality, investors should check the regulations in the relevant locality.

Local governments also require enterprise and worker contributions to pension and unemployment insurance funds. Tax rates for pension funds may run as high as 20% of an enterprise's total wage bill. Employees must also contribute between 3% and 8% of their salary, depending on the locale. In general, FIEs ventures are free to pay whatever wage rates they choose as long as it is above the locally designated minimum wage. In practice, income-tax laws often make it desirable to provide greater subsidies and services rather than higher wage rates. Most FIES determine their methods and calculations of salaries and benefits after observing local practice. China's national labor law also requires compensation for overtime work.

Termination of Employment: The ability to terminate workers varies widely based on location, type, and size of enterprise. Terminating individual workers for cause is legally possible but may require prior notification/consultation with the local labor bureau and labor union. In general, it is easier to fire in southern China than in the northeast, and in smaller enterprises than in larger ones. FIEs generally do not encounter problems letting workers hired on short-term contract go at the end of the contract period. However, enterprises that take on workers from SOEs usually find it difficult to terminate these workers. Investors should be aware that large-scale layoffs from long-established SOEs have created some tension, and prompted some demonstrations by Chinese workers, and even led to violence in a few cases, though not to a degree that threatens social stability.

Worker Rights: It is illegal under Chinese law to oppose efforts to establish officially sanctioned unions. Amendments to the Trade Union Law, passed in 2001, provide tougher legal sanctions for anti-union activity. The amendments are widely perceived as strengthening unions' organizing activities in the private sector, including FIEs, where they have been underrepresented. However, these amendments do not require establishment of unions in these enterprises. The Communist Party controls the country's sole officially recognized workers' organization, the All-China Federation of Trade Unions (ACFTU). Independent trade unions are illegal. FIEs without unions often have worker organizations that perform functions similar to Chinese unions, such as organizing social and charitable activities.

China's Labor Law provides for collective labor contracts to specify wage levels, working hours, working conditions, and insurance and welfare. Most collective negotiations, however, appear to be pro-forma in nature. This is because local Communist party committees, rather than the workers themselves, control the selection of the union leaders who conduct collective bargaining.

Although China is a signatory to several ILO conventions, it has not signed key ILO conventions on freedom of association and collective bargaining. In 2001, China ratified the International Covenant on Economic, Social and Cultural Rights, but reserved on the issue of freedom of association.

O. Foreign-Trade Zones/Free Ports

China's principal duty-free import/export zones are located in Dalian, Tianjin, Shanghai, Guangzhou, and Hainan. In addition to these officially designated zones, many other free trade zones offering similar privileges exist and are incorporated into economic development zones and open cities throughout China. However, restrictions and charges often apply and can affect venture operations and business in the latter zones.

China's General Administration of Customs claims success in controlling the duty-free importation of production inputs into the zones, but the lack of physical barriers makes it difficult to control the flow of non-duty items out of the zones.

8. Trade and Project Financing

A. Banking System

China's banking system has undergone significant changes in the last two decades: banks are now functioning more like banks than before. Nevertheless, China's banking industry has remained in the government's hands even though banks have gained more autonomy. China's accession to WTO will lead to a significant opening of this industry to foreign participation.

Central Bank: At the top of the system is China's central bank, the People's Bank of China (PBOC), which has been charged with managing the money supply and credit, and supervising the banking system. PBOC, together with the State Administration of Foreign Exchange (SAFE), set foreign-exchange policies.

The PBOC supervises the banking sector's payment, clearing and settlement systems, and audits the operations and balance sheets of all financial institutions in China, as well as implements the regulations regarding the operation of the Commercial banks.

According to the 1995 Central Bank law, PBOC has full autonomy in applying the monetary instruments, including setting interest rate for commercial banks and trading in government bonds. The State Council maintains oversight of PBOC policies.

Commercial Banks: In 1995, the government introduced the Commercial Bank Law to commercialize the operations of the four state-owned banks, the Bank of China (BOC), the China Construction Bank (CCB), the Agricultural Bank of China (ABC), and the Industrial and Commercial Bank of China (ICBC).

The Bank of China (BOC) specializes in foreign-exchange transactions and trade finance. It is estimated that BOC holds a 59% share of China's trade-finance business. The China Construction Bank (CCB) provides financing to infrastructure projects and urban housing development. The Agriculture Bank of China (ABC) specializes in providing financing to China's agricultural sector and offers wholesale and retail banking services to farmers, township and village enterprises (TVEs) and other rural institutions. The Industrial & Commerce Bank of China (ICBC), the largest bank in China, is the major supplier of funds to China's urban areas and manufacturing sector.

Policy Banks: Three new "policy" banks-the Agricultural Development Bank of China (ADBC), China Development Bank (CDB), and the Export-Import Bank of China (Chexim) - were established in 1994 to take over the government-directed spending functions of the four state-owned commercial banks. These banks are responsible for financing economic and trade development and state-invested projects.

CDB specializes in infrastructure financing; ADBC provides funds for agricultural development projects in rural areas; and Chexim specializes in trade financing.

Second Tier Commercial Banks: In addition to the big four state-owned commercial banks, there are smaller commercial banks. The largest ones in this group include the

Bank of Communication, China Everbright Bank, CITIC Industrial Bank, Shanghai Pudong development bank, Shenzhen Development Bank, Guangdong Development Bank, Minsheng Bank and Hua Xia Bank. The second tier banks are generally healthier in terms of asset quality and profitability and have much lower non-performing loan ratios than the big four.

Trust and Investment Corporations: In the midst of the reforms of the 1980s, the government established some new investment banks that engaged in various forms of merchant and investment banking activities. Many of the 240 or so international trust and investment corporations (ITICs) established by government agencies and provincial authorities, however, experienced severe liquidity problems after the bankruptcy of the Guangdong International Trust and Investment Corporation (GITIC) in late 1998. The largest surviving ITIC is China International Trust and Investment Corporation (CITIC), which has a banking subsidiary known as CITIC Industrial Bank.

Years of government-directed lending has presented these banks with large amounts of non-performing loans. According to Chinese government, non-performing loans account for 25% to 30% of total lending of China's four big banks. Nonetheless, this ratio comes after RMB1.4 trillion ($157.3 billion) of non-performing assets have been transferred from the banks to the asset management companies (AMC), which were established in 1999 to take over non-performing loans for the Big Four. The AMCs plan to repackage the non-performing loans into viable assets and sell them off to the investors.

PBOC has encouraged banks to diversify their portfolios by increasing their services to the private sector and individuals. In July 2000, a personal credit rating system was launched in Shanghai to be used to assess consumer credit risk and set ratings standards. This is an important move in developing China's consumer credit industry, and increase bank loans to individuals.

Recently, the central government has allowed several small banks to raise capital through bonds or stock issues. Followed the listing of Shenzhen Development bank and Pudong Development Bank, China Minsheng Bank, the only private bank in China, was listed on the Shanghai (A-Share) Stock Exchange in December 2000. More Chinese banks are expected to list in the next three years in order to raise capital.

The reform of the banking system has been accompanied by PBOC's decision to decontrol interest rates. The PBOC announced in August 2000 that it planned to liberalize the interest rates in about three years.

As a first step, the PBOC liberalized the interest rates for foreign currency loans and large deposits (US$3 million and over) in September 2000. Next on the liberalization schedule are the interest rates for certificates of deposits and other money market instruments. There after, the PBOC will liberalize the interest rates for large, fixed term deposits at urban banks. However, the full liberalization of interest rates on other deposit accounts, including checking and saving accounts, is expected to take much longer. On the lending side, market-determined interest rates on loans will first be introduced in the rural areas and then followed by rate liberalization in the cities.

China's entry into the WTO will bring tremendous opportunities to foreign banks. As a milestone move to honor its WTO commitments, China released the Rules for Implementing the Regulations Governing Foreign Financial Institutions in the People's Republic of China in January 2002. The rules provide detailed regulations for implementing the administration of the establishment, registration, scope of business, qualification, supervision, dissolution and liquidation of foreign financial institutions. They also stipulate that foreign bank branches conducting foreign-currency business are required to have operating capital of at least 600 million RMB (USD$ 72.3 million), of which at least 400 million RMB (USD$48.2 million) must be held in RMB and at least 200 million RMB (USD$24.1 million) in freely convertible currency.

Client restriction on foreign currency business has been lifted immediately after China's entry into the WTO on December 11, 2002. For local currencies, geographic restriction will be phased out beginning with four major cities¤Shanghai, Shenzhen, Tianjin and Dalian being open upon China's WTO accession. With respect to the client restriction, foreign financial institutions will be permitted to provide services to Chinese enterprises within two years after accession, and to all Chinese clients within five years after accession.

B. Foreign-Exchange Controls

The PBOC and SAFE regulate the flow of foreign exchange in and out of the country, and set exchange rates through a "managed float" system. To better control this flow, almost all Chinese enterprises and agencies are required to turn over their foreign currency earnings to the banks in exchange for renminbi. (Large exporters were allowed to retain up to 15% of their earnings beginning in late 1997.) When foreign exchange is required for import and other authorized transactions, they then apply to designated banks that are members of the interbank foreign-exchange market.

The Chinese government has eliminated the foreign-exchange swap centers on which FIEs used to trade among themselves, and all FIEs have been integrated into the formal banking system. Foreign-invested enterprises (FIEs) are permitted to keep foreign exchange in foreign exchange accounts at commercial banks. Since 1995 China has required that FIEs submit an annual report on their foreign-currency transactions, known as the Foreign-Exchange Examination Report. This report must be prepared by a certified public accountant registered in China and approved by SAFE and is necessary to qualify for foreign-exchange privileges. The purpose of the report is to ensure that FIEs' foreign-exchange earnings from exports are sufficient to meet their own requirements as well as any obligation to repatriate profits. Once the report is approved, firms receive a stamped Foreign Exchange Registration Certificate that enables them to obtain foreign exchange.

On July 1, 1996, China began to allow all FIEs in China to buy and sell foreign currency and exchange RMB in authorized banks for trade and services, debt payment and profit repatriation. The PBOC has lifted limits on exchanging and remitting currency for non-trade purposes and raised the ceilings for the amount of foreign exchange for private use. In mid-1998, however, SAFE cracked down on many of the loopholes used to get around the controls on capital account transactions. Many FIEs complained that delays occurred when SAFE screened their documentation more closely. SAFE has streamlined its system, but the requirement for proof that all relevant local taxes have been paid is a burden for many offshore service providers. In June 2002, SAFE authorized FIEs to draw on foreign exchange in their capital fund accounts for transaction settlements without prior SAFE approval. SAFE has also authorized designated Chinese commercial banks to change domestic currency needed by Chinese citizens for educational or travel expenses within specified limits, thus streamlining access to foreign currency for many individuals. Nevertheless, China's stated goal of achieving a fully convertible currency remains distant because of political concerns over the potential impact to the Chinese economy, and the authorities refuse to commit to a specific timetable for capital account liberalization.

Foreign banks, their branches and foreign joint-venture banks are authorized to buy or sell foreign exchange from or to foreign-funded ventures. Foreign-funded banks or branches are not allowed to accept local currency deposits or to make RMB loans except if they have been specially licensed in the Pudong district of Shanghai and in the cities of Shenzhen, Dalian, and Tianjin. Elsewhere, foreign banks and their branches are prohibited from accepting RMB deposits (liabilities) but may establish RMB accounts to convert currencies for their joint venture and foreign customers. China has pledged to expand the scope of RMB business gradually and to eliminate all geographical restrictions within five years of entering the World Trade Organization (WTO).

C. General Financing Availability

Sources of financial support available to U.S.-based exporters are:

Export Credits: The U.S. Export-Import Bank, an independent agency of the U.S. government, seeks to increase the competitive position of U.S.-based exporters in overseas markets by assisting in the financing of U.S. export sales. Ex-Im Bank guarantees the repayment of loans or makes loans to international purchasers of U.S. goods and services. Ex-Im Bank also extends export credit insurance to overseas buyers and protects U.S. exporters against the risks of non-payment for political or commercial reasons. A reasonable assurance of repayment on every transaction financed must be concluded.

Ex-Im Bank has signed master credit agreements with Bank of China and China Development Bank but can work with any Chinese bank that meets its credit guidelines. Ex-Im Bank has worked with China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of Communications. For private sector borrowers, Ex-Im Bank will accept financial statements audited according to acceptable accounting practices with notes that adequately disclose financial conditions and afford a reasonable basis for reliance on the information provided. The terms and conditions of standard export financing are governed by the OECD Arrangement on export credits. For Ex-Im Bank direct loans, lending rates (commercial interest reference rates or CIRR) are set monthly and are based on a spread above U.S. Treasuries.

The Chinese government and Chinese borrowers are accustomed to receiving concessional financing terms and conditions designed to support a country's exporters. The credits can be offered under government-to-government protocols related to a particular sector or project. U.S. firms, otherwise competitive on price and quality, often lose contracts because they are unable to compete with such concessional loans. Ex-Im Bank will, under certain circumstances, consider matching the specific financing terms of a competing government offer. Tied Aid matching funds must be approved by both the Board of Directors of Ex-Im Bank and the President.

For more information concerning Ex-Im Bank programs and application procedures contact Ex-Im Bank in Washington, DC at (800) 565-EXIM or (202) 565-3545. In China, contact the Ex-Im Bank Representative, Mr. Douglas Lee, at the Foreign Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x809, Fax: (86-10) 8529-6558. Exposure fee calculations and applications can be found on-line at **http://www.exim.gov/**.

Direct grants: U.S. Trade & Development Agency fund feasibility studies, orientation visits, specialized training grants, business workshops and technical assistance worldwide. TDA is active in more than 60 countries and has recently opened its programs in China after a 12-year break. In order to be eligible for assistance, projects must have a procurement process open to U.S. firms, represent an opportunity for sales of U.S. goods and services and be a development priority of the country where the project is located. Contact Mr. Geoff Jackson, Regional Director for Asia/Pacific, at TDA's Arlington, VA office. Tel: (703) 875-4357, Fax: (703) 875-4009. In China, contact the TDA Representative, Ms. Wan Xiaolei, at the Foreign Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x839, Fax: (86-10) 8529-6558. Website: **http://www.tda.gov/**

Multilateral Agencies: The World Bank, based in Washington, D.C., maintains a large loan program in China. The World Bank's purpose is to help borrowers reduce poverty and improve living standards through sustainable growth and investment. China represents the World Bank's second largest commitment worldwide. The Bank's program policies in China continue to shift away from key infrastructure projects in transportation and energy toward environmental and agriculture support. The World Bank publishes bidding opportunities in the United Nations publication "Development Business." This is available by subscription from United Nations, P.O. Box 5850, Grand Central Station New York, New York 10163-5850.

The World Bank conducts procurement by the rules of international competitive bidding through Chinese tendering organizations; nonetheless, successful bidding requires close coordination with the Chinese government entity responsible for developing a project at the consulting stage, when specifications are being established. The World Bank has a local office in China Tel: (8610) 6554-3361 Mr. Yukon Huang, Country Director. Website: **http://www.worldbank.org/**.

As a member of the World Bank, The International Finance Corporation has become increasingly active in China. It is mandated to assist joint venture and share holding companies with substantial non-state ownership to raise capital in the international markets. The IFC takes equity positions in these companies. The IFC's core business is "project finance," and it currently has over $1.2 billion invested in "project finance" undertakings in China. The projects have anticipated cash flows that can cover repayments to lenders and dividends to shareholders. They do not enjoy a government guarantee. The IFC can be contacted through its Washington, D.C. Headquarters at (202) 473-0631 or Ms. Karin Finkelfton at the Beijing office, Tel: (8610) 6554-4191, Fax: (8610) 6554-4192. Website: **http://www.ifc.org/**

The Asian Development Bank is a multilateral development finance institution owned by 59 members of whom 43 are from Asia/Pacific, provides loans and technical assistance to governments for specific projects and programs. In 2001 lending volume was $5.3 billion of which $997 million (6 loans) was approved for China. ADB also provided 20 technical assistance grants totaling $12.4 million for China. Cumulative ADB lending to China as of December 31, 2001 was $11.3 billion.

Once a project is initially approved by the ADB and the Chinese government, it is included in a monthly publication called "ADB Business Opportunities" which is available by subscription from the Publications Unit, Information Office, ADB, P.O. Box 789, Manila, Philippines, Fax: (632) 632-5122 or 632-5841. The Commerce Department has established a Multilateral Development Bank Operations Office (Fax: (202) 273-0927) which publishes information to assist companies in winning such contracts. The ADB Resident Mission in China is located in Beijing. Contact Bruce Murray, Resident Representative at Tel: (8610) 6642-6601, Fax: (8610) 6642-6606. Website: **http://www.adb.org/**.

D. Terms of Payment

In China's liberalized economic regime, there are many ways to finance imports. The most commonplace are letter of credits and documentary collections. Under these methods, foreign exchange is allocated by the central government for an approved import.

Letters of credit: Although the Bank of China dominates China's trade-finance business, most Chinese commercial banks have the authority to issue letters of credit for imports. These include China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and CITIC Industrial Bank. Foreign banks with branch or representative offices in China (see Appendix D) can also issue letters of credit.

There are a few peculiarities about letters of credit issued by Chinese banks. First, from time to time local Chinese courts have issued injunctions that bar Chinese banks from clearing letters of credit whose underlying documentation has been challenged. The central government has issued guidance against this practice, which is gradually disappearing. Second, China is not a member of the International Chamber of Commerce and, therefore, is not subject to the Unified Customs and Practices (UCP) 400 code regarding international trade payments. In Chinese practice, terms and conditions are generally negotiable and set on a transaction-by-transaction basis in the form of a "silent" confirmation.

Documentary Collections: This method of payment is similar to a letter of credit, but less formal and more flexible. Just as with letters of credit, the exporter submits a full set of trade documents for payment collection to the bank designated in the contract. The Chinese bank will send the documents to the home office, which examines them and, in some cases, passes them to the buyer for further examination. Payment is made after the documents have met the approval of all parties. This method of payment provides rather thin coverage against default. It can be considerably less expensive than a letter of credit, but should be used with caution. It is the responsibility of the exporter to determine the specific instructions to be used in the collection letter.

Other methods:

Bank or Enterprise Loans: Many Chinese companies have relationships with local banks or other enterprises that will loan funds for the purchase imports.

Foreign Supplier Loan: The supplier helps to finance, on behalf of the Chinese buyer, the purchase of its equipment.

Proceeds sharing/cooperative joint venture: Some suppliers will enter into a cooperative joint venture to ensure the sale and financing of their equipment.

E. Insurance

Insurance: Congress suspended the China operations of the Overseas Private Investment Corporation (OPIC) in 1989 (see section VII M. above). The U.S. Ex-Im Bank has programs that provide guarantees and export credit insurance covering U.S. content. Some private companies, such as American International Group and Home Life, also offer export credit insurance policies for China. AIG Beijing office Tel: (86-10) 6597-8889, Fax: (86-10) 6597-8878. Home Life Beijing office Tel: (86-10) 6552-0608, Fax: (86-10) 6552-1883

F. Project Financing

Chinese officials have for years experimented with limited- recourse project financing schemes. Long awaited Build-Operate-Transfer (BOT) laws have been delayed, however, and the overall private finance climate has cooled during the past few years. The U.S. Ex-Im Bank is seeking to implement a limited-recourse, project-financing program in China. Such a project is one in which anticipated cash flows can cover debt service repayment to lenders and payment of dividends to shareholders, and is without government guarantees. Loans under this program will be available to companies operating investment projects that require imports from the U.S. Project financing is also available from the U.S. Export-Import Bank and various multilateral financial institutions as described in Section C above.

G. Commercial Bank Contacts

Chinese Bank Contacts:

Agricultural Bank of China
Mr. Zhang Ling, Director of Foreign Affairs Office
100 Xi San Huan Bei Lu, Beijing, China 100037
Tel: (86-10) 6842-4524
Fax: (86-10) 6842-4495

Bank Of China
Mr. Xing Ping, Chief of American & Oceanic Affairs Division
#1 Fuxingmennei DaJie
Beijing, China 100818
Tel: (86-10) 6659 2824
Fax: (86-10)6601-4096

China Construction Bank
25 Jinrong Dajie
Beijing, China 100032 Tel: (86-10) 6759-8061/6759-8069 (Foreign Affairs Office)
Fax: (86-10) 6759-7153
Contact: Mr. Wan Binjiang / Chief Of Foreign Affairs Division

China Development Bank (Policy Bank)
Mr. Du Runping / Deputy General Manager Of Int'l Finance Department
29 Fuchengmen Wai Dajie
Beijing, China 100037
Tel: (86-10) 6830-6502/6830-6520
Fax: (86-10) 6830-6521

CITIC Industrial Bank
Mr. Liu Yong / GM Of International Business Management Division
Fu Hua Mansion, 8 Chaoyangmen Bei
Chaoyang District
Beijing , China 100027
Tel: (86-10) 6554-1891
Fax: (86-10) 6554-2181

Bank Of Communications
Mr. Hu Rongbing / General Manager Of Foreign Affairs
18 Xianxia Lu, Shanghai 200336
Tel: (86-21) 6275-1234 Ext. 2563
Fax: (86-21) 6219-6035

Everbright Bank of China
Mr. Peng Yiping, Office of Foreign Affairs
Everbright Building
No. 6 Fuxingmenwai Dajie, Beijing
Beijing 100045
Tel: (86-10) 6856-1302/03
Fax: (86-10) 6856-1301

Huaxia Bank
111 Xidanbeidajie, Xicheng District, Beijing 100032
Mr. Yang Hong / Director Of Int'l Business Dept.
Tel: (86-10) 6615 1199 - 2148
Fax: (86-10) 6618-8333

Industrial & Commercial Bank of China
Ms. Cao Qi / Division Chief Of Foreign Affairs Division
55 Fuxinmennei Dajie, Xicheng District Beijing 100032
Tel: (86-10) 6610-6047
Fax: (86-10) 6610-6044

Merchants Bank (Shenzhen Headquarters) Ms. Xu Yunxi / Foreign Affair Division
Merchants Bank Building, No. 7088 Shennan Dadao
Shenzhen 518040
Guangdong Province
Tel: (86-755) 8319-5652
Fax: (86-755) 8319-5081

Minsheng Bank Of China
Mr. Li Wen / Chief Of Foreign Affair Division
No.4 Zheng Yi Lu, Dongcheng District Beijing 100006
Tel: (86-10) 6522 6699 - 6060

Fax: (86-10) 6559 6883

Bank Of Shanghai
Mr. Zhang Shude / Chief Of International Business
No.585, Zhongshan East Road
Tel:021 6337 1028
Fax:021 6337 1048

Shanghai Pudong Development Bank
Mr. Jin Jialiu / Administration Office
12 Zhongshandongyi Road, Shanghai 200002
Tel: (86-21) 6329-6188
Fax: (86-21) 6323-2036

Shenzhen Development Bank
Mr. Ma Liming / General Manager Of Intl. Business
5047 Shennan Dong Lu
Shenzhen 518001, Guangdong Province
Tel: (86-755) 208 - 0401
Fax: (86-755) 208 -1069

Foreign Bank Contacts In China:
ABM-AMRO
Beijing Branch
Suite 2801, 28th Floor
North Tower, Beijing Kerry Center
1 Guanghua Lu
Beijing 100020
Contact: Mr. Charles Ng, Vice President
Tel: (86-10) 6561-7766, X9001
Fax: (86-10) 8529-8650

Bank Of America
Beijing Branch
China World Tower 1, 26th Floor
1 Jianguomenwai Avenue
Beijing 100004
Contact: Ms. Annie Wong, Managing Director
Tel: (86-10) 6505-3508, X628
Fax: (86-10) 6505-3509

Shanghai Branch
18th Floor, South Tower
Shanghai Stock Exchange Building
528 Pudong Road South
Pudong New Area, Shanghai 200120
Contact: Ms. Anna Cheung, Vice President
Tel: (86-21) 6881-8686
Fax: (86-21) 6881-8816

Guangzhou Branch
Bank Of America Plaza, 25th Floor
No. 555 Renmin Zhong Road
Guangzhou 510180
Contact: Mr. Herman Ng, Vice President
Tel: (86-20) 8130-0888, X238
Fax: (86-20) 8130-0899

Bank One, NA
Beijing Branch

Room 1605, CITIC Building
19 Jianguomenwai Avenue
Beijing 100004
Contact: Mr. Kok-Chi Tsim, Managing Director/General Manager
Tel: (86-10) 6500-3281, X228
Fax: (86-10) 6500-3166

BNP Paribas
Beijing Branchv
19th Floor, China World Tower
1 Jianguomenwai Avenue
Beijing 100004
Contact: Mr. Daniel Gillen, General Manager For Greater China
Tel: (86-10) 6505-0888, X601
Fax: (86-10) 6505-1704

Citibank, NA
Beijing Branch
16/F, Tower 1, Beijing Bright China Chang-An Building
No. 7 Jianguomennei Ave.
Beijing 100005
Contact: Ms. Deng Ning, Chief Representative
Tel: (86-10) 6510-2933, X7388
Fax: (86-10) 6510-2932

Shanghai Branch
101 Marine Tower
No. 1 Pudong Ave.
Shanghai 200120
Contact: Mr. Huang Xiaoguang, General Manager
Tel: (86-21) 5879-1200
Fax: (86-21) 5879-5933

Guangzhou Representative Office
7201-7202, Office Tower, CITIC Plaza
233 Tian He North Road
Contact: Mr. Tommy Luo, Vice President
Tel: (86-20) 3877-1333, X1133
Fax: (86-20) 3877-0990

Shenzhen Branch
37/F., International Financial Building
23 Jianshe Road
Shenzhen 518001
Contact: Ms. Wang Li, General Manager
Tel: (86-755) 223-2338 Ext. 92300
Fax: (86-755) 223-1238

Xiamen Representative Office
8th Floor, Miramar Hotel Xiamen 361006
Contact: Ms. Xie Lin, Chief Representative
Tel: (86-592) 603-1666, X818
Fax: (86-592) 602-0615

Credit Lyonnais
Beijing Representative Office
Suite 1803, CITIC Bldg.
19 Jianguomenwai Avenue
Beijing 10004
Contact: Mr. Remy Yao, Chief Representative

Tel: (86-10) 6595-9225
Fax: (86-10) 6500-4479

Deutshe Bank
Beijing Representative Office
Room 908, China World Trade Center
1 Jianguomenwai Avenue
Beijing 100004
Contact: Ms. J.C. Yu, Vice President
Tel: (86-10) 6505-2305, X113
Fax: (86-10) 6505-2304

Shanghai Branch
29th Floor, Shanghai Senmao Int'l Bldg.
101 Yin Cheng East Road
Pudong, Shanghai 200120
Tel: (86-21) 6841-0266
Fax: (86-21) 6841-2277

HSBC (Hong Kong & Shanghai Banking Corp Ltd)
Beijing Branch
Ground Floor, Block A, COFCO Plaza
8 Jianguomenwai Avenue
Beijing 100005
Contact: Mr. Samuel CC Lau, Manager
Tel: (86-10) 6526-0668
Fax: (86-10) 6526-0669

JP Morgan Chase
Beijing Branch
25th Floor, South Tower
Beijing Kerry Center
Beijing 100020
Contact: Mr. Dennis Zhu, Chief Representative
Tel: (86-10) 8529-6333
Fax: (86-10) 8529-6322

Rabobank
Beijing Representative Office
Room 1808, 18th Floor
Tower A, China World Trade Center
1 Jianguomenwai Avenue
Beijing 10004
Contact: Ms. Dao Hui, Chief Representative
Tel: (86-10) 6505-3016
Fax: (86-10) 6505-3019

Scotiabank
Beijing Representative Office
A1109-1110 Corporate Square
35 Finance Street
Xicheng District
Beijing 100032
Contact: Ms. June Q. Fu, Chief Representative
Tel: (86-10) 8809-1108
Fax: (86-10) 8809-1109

Societe Generale
Beijing Representative Office
Scitech Tower, Room 1904

22 Jianguomenwai Avenue
Beijing 100004
Contact: Mr. Alban Yung
Tel (86-10) 6512-3666
Fax (86-10) 6512-7485

9. Business Travel

Visa: U.S. citizens traveling to China must obtain a Chinese visa before embarking on the trip. A few different types of visas are issued to visitors, including the tourist visa (Type L) that allows the bearer one- to two entries to stay up to one month each time. Short-term business visas (Type F) are issued to travelers who are invited to visit for business or research purposes and require a formal invitation from a Chinese host organization. Business travelers on short-term excursions for meeting or site-visit purposes generally apply for either the Type L or Type F visa. Consult the Chinese Embassy or Consulate General on obtaining the right type of visa or apply through a travel agency.

Those who wish to work and stay in China for extended periods of time need to apply for employment visa (Type Z), which allows multiple entries into China and is valid for up to one year. The application process is long and bothersome and requirements many, including a complete physical check-up. Upon expiration, the Type Z visa can be renewed with reasonable amount of effort and paperwork.

Trade Shows & Exhibitions: Participants can come into China on tourist visas and travel in-country. Notebook computers, cameras, portable printers, VCRs can be brought into China as personal belongings.

Business firms seeking to bring in exhibits and items for display should consult with Customs authorities for regulation on the procedures and to obtain copies of appropriate forms.

Temporary Entry: Goods imported in China for display or demonstration at trade shows and exhibitions are exempt from Customs duty, provided they are re-exported within three months. The exhibition organizer must obtain advance approval from the Customs, provide certain shipping documents and a list of items to be exhibited, and coordinate with Customs officials. Customs may sometimes request a guarantee in the form of a deposit or letter.

A local sponsor with authority to engage in foreign trade may sponsor small exhibitions or technical seminars, requiring less than 500 square meters in exhibition space, without first seeking approval from MOFTEC. Customs will handle the tariff exemption formalities based upon a guarantee of re-export that is signed between the sponsor and the foreign party.

Food and beverage exhibition "not-for-sale" sample-entry rules are not clearly defined and appear capriciously applied. U.S. exhibitors should contact the exhibition organizers to determine their liabilities regarding sample entries for such events before registering to participate, to obtain a clearer understanding of exhibition-related expenses.

Some exhibits or samples imported under the temporary not-for-sale regulations may be sold after the trade event is completed; in which case the duties owed on these items are levied by the Customs.

Passenger Baggage: Reasonable quantities of items for personal use by short-term visitors may be imported duty-free. Other items such as cameras, televisions, stereo equipment, computers, and tape recorders must be declared and may be assessed a duty depending upon the item's value.

Advertising Materials and Trade Samples: Samples and advertising materials are exempt from customs duty and Value-Added Tax (VAT) if the item's value does not exceed RMB200. Samples and advertising materials concerning certain electronic products, however, are subject to customs duty and VAT regardless of value.

Representative Offices: Representative offices must submit a written application to Customs if they intend to import any personal effects or vehicles. Approval by Customs waives any relevant import license requirements and allows the office to import the equipment in reasonable amounts for office-use only.

Overseas Assignment to China: Expatriate managers who are assigned to work in China need to apply for employment visas (see above). On their first trip into China on the Z visa, they are entitled to bring duty-free reasonable and personal- and household- use items including the otherwise dutiable items such as VCRs, PCs, and video cameras.

Economic and Trade Statistics Appendices

A. Country Data and Domestic Economy

Population

	1999	2000	2001	2002	2003
Population (in millions)	1,259	1,267	1,276	1,286	1,297
Population Growth Rate	1.0%	1.0%	1.0%	1.0%	1.0%

Official growth rate for 2001 is assumed for 2002 forward and is used to produce population estimates for those years.

Religion: Officially atheist, but traditionally pragmatic and eclectic; most important religions are Taoism and Buddhism, followed by Islam and Christianity.

Languages: Standard Mandarin Chinese is generally spoken by educated people throughout China, but there are dozens of major local dialects such as Cantonese, Shanghainese, Minbei, Minnan, Xiang, Gan, and Hakka.

Workweek: Official workweek is 40 hours per week.

Domestic Economy

	2000	2001	2002	2003
GDP (RMB trillions)/2	8.940	9.593	10.312	11.085
GDP Growth (%)/3	8.0	7.3	7.7	7.5
GDP Per Capita ($)	856	912	969	1030
Government Spending (% GDP)	11.7	13.5	14.0	15.0
Retail Price Inflation (%)	-1.5	-0.8	-1.5	-1.0
Unemployment (%)/4	3.1	3.6	4.0	4.0
Total For. Ex. Reserves ($Bn)	166	180	260	300
Avg. Exchange Rate (RMB/$)	8.27	8.27	8.27	8.30
Foreign Debt ($ Bn)/5	145.7	170.4	175.0	175.0
Debt Service Ratio	9.2	7.5	7.5	7.0

Notes:
1/ 2000 and 2001 -- with the exception of the debt service ratio for 2000 -- are officially

reported Chinese government statistics. Figures for 2002 and 2003 are Embassy estimates.

2/ At current prices.

3/ At constant prices.

4/ Official Chinese estimate of urban unemployment. Unofficial estimates range from 8-15%.

5/ The Chinese government changed its official methodology for calculating its foreign debt in 2001 to conform with internationally accepted standards. As a result, the 2001 figure is not comparable with previous years.

B. Trade Data

Trade Data (US$ Billions)

	1998	1999	2000	2001	2002
Total PRC exports /1	183	195	249	266	284
Total PRC imports /1	140	165	225	244	256
U.S. exports to PRC /2	14	13	16	19	21
U.S. exports to PRC /3	17	19	22	26	26
U.S. imports from PRC /2	71	81	100	102	111
U.S. imports from PRC /3	38	41	52	54	60
Total US ag. exp. to PRC/4	1.3	.9	1.7	1.9	1.9
Total US ag. imp. from PRC/4	.7	.8	.8	.8	1.0

1/ China Customs data, U.S. Embassy estimates for 2002.

2/ U.S. Custom's data, U.S. Embassy estimates for 2002.

3/ China Customs data, U.S. Embassy estimates for 2002.

4/ U.S. Department of Agriculture, U.S. Embassy estimates for 2002.

10. Investment Statistics

The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) produced the data below. The statistics on utilized investment are based on required reporting by FIEs of committed capital. Cumulative values are simple totals of data collected each year. As such, they are based on historical costs, not adjusted for inflation, do not take into account divestment, nor do they reflect investment stock. More sophisticated data on foreign investment is not currently available in China. However, MOFTEC has been working with the Organization for Economic Cooperation and Development, the International Monetary Fund, and the UN Conference on Trade and Development (UNCTAD) on ways to improve statistical gathering and computation

China's FDI data include investment from Hong Kong and Macau, which are special administrative regions (SARs) of China, as well as from Taiwan. Many mainland companies invest via Hong Kong and Macau subsidiaries in order to obtain investment incentives, such as tax breaks, which are available only to foreign investors. Analysts estimate that Mainland Chinese funds flowing through Hong Kong account for 10-30% of Hong Kong's total realized FDI in China. Further skewing Hong Kong and Macau statistics, many Taiwan firms invest in the mainland via these SARs in order to avoid the scrutiny of the Taiwan authorities. Indeed, some observers estimate actual FDI inflows from Taiwan at two to three times the $29.1 billion formally recorded by China.

China records FDI contracts and reports these data regularly. "Contracted FDI" correlates only very weakly with FDI actually utilized and has proven a misleading indicator of future FDI inflows. Contracted FDI is also not comparable with data from other major developed and developing economies, which generally do not collect or publish such data. Consequently, contracted FDI figures are not reported here.

Table 1 -- Utilized Foreign Direct Investment in China from All Sources

(1979-2001) (In $ Millions)

Year	Utilized FDI
1979-82	1,769
1983	916
1984	1,419
1985	1,956
1986	2,244
1987	2,314
1988	3,194
1989	3,393
1990	3,487
1991	4,366
1992	11,008
1993	27,515
1994	33,767
1995	37,521
1996	41,726
1997	45,257
1998	45,463
1999	40,319
2000	40,714
2001	46,878
Total	395,226

Source: Ministry of Foreign Trade and Economic Cooperation

State Statistical Bureau.

Note: Yearly figures do not sum exactly to total due to rounding.

Table 2 -- U.S. Utilized Foreign Direct Investment in China (1979-2001)

(In $ Millions)

Year	Realized FDI

1979-82	13
1983	5
1984	256
1985	357
1986	326
1987	263
1988	236
1989	284
199O	456
1991	323
1992	511
1993	2,063
1994	2,491
1995	3,083
1996	3,443
1997	3,239
1998	3,898
1999	4,216
2000	4,384
2001	4,433
Total	34,466

Source: Ministry of Foreign Trade and Economic Cooperation

State Statistical Bureau

Note: Yearly figures do not sum exactly to total due to rounding.

Table 3 -- China's Utilized and Cumulative Foreign Direct Investment by Selected Source Economy for 2001 and as of 2001

(In $ millions)

	Utilized FDI	Cumulative FDI
Hong Kong	16,170	187,014
Virgin Islands	5,042	18,270
United States	4,433	34,466
European Union	4,183	29,580
Japan	4,348	32,150
Taiwan	2,980	29,140
Korea	2,152	12,478

Singapore	2,144	19,136
Germany	1,213	7,066
Cayman Islands	1,067	2,624
United Kingdom	1,052	9,800
Total (All Sources)	46,878	395,223

Source: Ministry of Foreign Trade and Economic Cooperation

Note: Cumulative figure for the European Union is reflects 1986-2001 data only.

Table 4 -- China's Utilized Foreign Direct Investment by Sector

(In $ Millions)

Utilized FDI	Change from 2000 (%)	2001
Agriculture, Forestry, Animal Husbandry, and Fisheries	899	33.0
Mining	811	39.1
Manufacturing	30,907	19.6
Utilities	2,273	1.4
Construction	807	-10.8
Management	10	N/A
Transport, Warehouse, Postal and Telecom Services	909	-10.2
Wholesale and Retail Trade and Food Services	1,169	36.2
Banking and insurance	35	-53.9
Real Estate	5,137	10.3
Social Services	2,595	18.8
Health Care, Sports and Social Welfare	119	12.3
Education, Culture, Arts, Radio, Film and TV Industry	36	-33.3
Scientific Research and Computer Technical Services	120	110.5
Others	1,051	-27.7
Total	46,878	14.9

(Percentages may not be exact due to rounding.)

Source: Ministry of Foreign Trade and Economic Cooperation

Note: MOFTEC's FDI statistics do not fully capture financial services investment.

Table 5 -- FOREIGN INVESTMENT ROLE IN CHINA'S ECONOMY (in $ millions)

	2001	% Change	% of 2001 National Figures
FIE-Generated Industrial Value Added	66,220	24.2	24.6
FIE-Generated Exports	125,863	7.3	51.7

FIE-Generated Imports	133,235	11.5	50.1
FIE-Generated Tax Revenues	288,300	30.0	19.0
2001 FDI inflows/GDP	-	-	0.04
2001 FDI stock/GDP	-	-	34.1

Source: Ministry of Foreign Trade and Economic Cooperation National Bureau of Statistics

Note: "Stock" is actually a cumulative total of historical inflows, not necessarily current stocks.

Table 6 -- Chinese FDI Outward Flows and Stock, 1997-2000

Year	Outflow	Outward Stock
1997	2.6	24.1
1998	2.6	26.7
1999	1.8	24.9
2000	2.3	27.2

Source: UNCTAD

Major U.S. Investors in China:

Motorola ($3.4 billion) -- Motorola is the largest U.S. investor in China. Facilities include a $1.9 billion semiconductor plant in Tianjin and a telecom equipment manufacturing facility in Hangzhou.

General Motors ($2 billion) -- includes $1.6 billion Shanghai GM joint venture, $135 million Jinbei GM joint venture (Liaoning), $100 million SAIC-Wuling joint venture (Liuzhou), and other ventures.

GE ($1.5 billion) -- GE's China operations include medical equipment, plastics, lighting, industrial equipment, aircraft engines, airplane leasing, capital services and transportation systems. GE recently opened a new research and development center in Shanghai.

ExxonMobil (over $1.2 billion) ³ ExxonMobil recently signed an agreement to participate in the West-East gas pipeline project with an investment of approximately $750 million over existing investments. ExxonMobil had already invested in a number of individual energy projects and in the IPO of Sinopec Corp. The bulk of this investment is in production-sharing contracts for upstream oil development, as well as refining projects.

Kodak ($1.2 billion) -- Kodak opened sensitizing facilities in Xiamen and

Shantou in June 2000. Other Kodak investments include equipment manufacturing including digital cameras and photochemicals.

Coca-Cola ($1.1 billion) -- Coca-Cola operates 28 bottling plants throughout China. In April 2000, the Coca-Cola company and the China National

Cereals, Oils, and Foodstuffs Import and Export Corp. (COFCO) signed a joint venture agreement to establish COFCO Coca-Cola Beverages Ltd., the first Chinese majority-owned bottling operation in Coca-Cola (China). The joint venture plans to invest $150 million in China within the next five years.

DuPont ($600 million) -- DuPont has seven wholly owned manufacturing facilities and thirteen joint ventures throughout China. Its facilities manufacture a wide range of products including nylon, polyester, fibers, nonwoven fabrics, etc.

United Technologies Corporation ($450 million) -- Several of UTC's subsidiaries have established operations in China, including Otis

Elevator, Carrier, UT Automotive, Turbo Power Systems, and Pratt and Whitney.

Intel ($500 million) -- Includes $198 million in assembly/testing facility in

Pudong and another $302 million in 2001 to expand facility.

IBM ($420 million) -- Includes $300 million organic chip packaging base in Shanghai and $17.5 million in Beijing Jinchangke International Electronics Co. with Great Wall Computer Shareholding Corp.

Pepsi ($400 million) -- Pepsi has established more than 30 JV plants in China.

Alcoa ($300 million) -- Alcoa currently has invested in five JVs in China. Also, Alcoa is currently in negotiations to invest another $450 million in an aluminum hot rolling mill project and the purchase of an aluminum extrusion company.

Ford ($250 million) -- Ford has several facilities in China producing auto parts, light vehicles, and trucks.

Hewlett-Packard ($100 million) -- Hewlett-Packard has established manufacturing facilities for personal computers and printers in Shanghai and elsewhere in China.

Cummins ($130 million) -- Cummins has established seven factories with Cummins ownership producing eight engine families, turbochargers, filters, generators, and gensets. Cummins moved its East Asia regional headquarters to Beijing in 1997 and has current sales of $400 million in the region.

Note: A significant portion of the $34.5 billion in cumulative FDI inflows from the United States was made by firms that have since changed hands through corporate M&A outside of China. The largest of these is BP, with $3.5 billion in FDI and $1 billion in portfolio investments in Sinopec and other companies. BP and its heritage companies have been in China since the 1970's. UK shareholders currently own an absolute majority of BP, according to company documents.

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Website: **http://www.safea.gov.cn/**

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Yi 22 Fuwaidajie, Beijing 100083, China
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State Machine-building Industry Association
46 Sanlihelu, Xicheng District, Beijing 100823, China
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China Iron and Steel Association
46 Dongsi Xidajie, Dongcheng District, Beijing 100711, China
Director: Wu Xichun
Tel: (86-10) 6513-3322/1935
Fax: (86-10) 6513-0074

State Oceanic Administration
1 Fuxingmenwai Dajie, Beijing 100860, China
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Website: **http://www.soa.gov.cn/**

China Petroleum and Chemical Industry Association
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Fax: (86-10) 8488-5097
Website: **http://www.apcia.org.cn/**

State Postal Bureau
131 Xuan Wu Men Xi Da Jie District, Beijing 100808, China
Director: Liu Liqing
Tel: (86-10) 6606-9955
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China National Textile Industry Council
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Fax:(86-10) 8522-9283

State Tobacco Monopoly Bureau
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Fax: (86-10) 6360-5036
Website: **http://www.tobacco.gov.cn/**

G. Associations & Corporations

All-China Federation of Industry and Commerce
93 Beiheyan Dajie, Beijing 100006
Chairman: Jing Shuping
Tel: (86-10) 6513-6677 Ext. 2233, 2234
Fax: (86-10) 6513-1769
Website: **http://www.acfic.org.cn/**

China Chamber of International Commerce (co-located with CCPIT, see below)
1 Fuxingmenwai Street
Beijing 100860
Tel: (86-10) 6851-3344
Fax: (86-10) 6851-1370

China Council for the Promotion of International Trade(CCPIT)
1 Fuxingmenwai Street, Beijing 100860
President: Yu Xiaosong
Tel: (86-10) 6801-3344
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Website: **http://www.ccpit.org/**

China Huaneng Group
40 Xue Yuan Nan Lu, Haidian District Beijing 100088, China
President: Li Xiaopong
Tel: (86-10) 6229-1535
Fax: (86-10) 6223-0171
Website: **http://www.chng.com.cn/**

China International Trust and Investment Corporation
Capital Mansion, 6 Xinyuan Nanlu, Chaoyangqu, Beijing 100004 China
President: Wang Jun
Tel: (86-10) 6466-0088 8486-8718
Fax: (86-10) 6466-1186
Website: **http://www.citic.com.cn/**

China Nonferrous Metals Industry Association
Yi 12 Fuxing Lu, Xicheng, Beijing 100814, China
President: Kang Yi
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Fax: (86-10) 6396-5360

China National Offshore Oil Corp.
P.O. Box 4705, 6 Dongzhimenwai Xiaojie

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China National Petroleum Corp.
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Fax:(86-10) 6209-4806

China National Tobacco Corporation:
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President: Ni Yi Jin
Tel: (86-10) 6360-5678
Fax: (86-10) 6360-5036

China North Industries Corp.
Guang An Men Nan Da Jie Jia 12, Beijing 100053, China
President: Li De
Tel: (86-10) 6354-2738
Fax: (86-10) 6354-0398
Website: **http://www.norinco.com.cn/**

China Petro-Chemical Corporation
6 Hui Xin Dong Jie Jia, Beijing 100029
President: Li Yizong
Tel: (86-10) 6499-9936
Fax:(86-10) 6421-8356

China State Construction Engineering Corporation
15 Sanlihe Rd., Xicheng District, Beijing 100037, China
President: Sun Wenjie
Tel: (86-10) 8808-2958
Fax: (86-10) 8808-2789

China State Shipbuilding Corporation
5 Yuetanbeijie, Xicheng District, Beijing 100861, China
President: Li Changyin
Tel: (86-10) 6803-8833 6803-9205
Fax: (86-10)6803-9205
Website: **http://www.csic.com.cn/**

Everbright Industrial Corp.
6 Fu Xing Men Wai Street, Everbright Building, Beijing 100045, China
President: Wang Minquan
Tel: (86-10) 6856-1226/1206
Fax: (86-10) 6856-1121
Website: **http://www.ebchina.com/**

People's Insurance Company of China
#69 Xuan Wu Men Dong He Yan Jie, Beijing 100052, China
President: Tang Yunxiang
Tel: (86-10) 6315-2033
Fax: (86-10) 6315-2033
Website: **http://www.piccnet.com.cn/**

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American Association for Manufacturing Technology
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2 Dongsanhuan North Road
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Fax: (86-10) 6410-7334

American Chamber of Commerce in Beijing
Chris Murck, Chairman
Mike Furst, Executive Director
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8 Jianguomenbei Avenue
Beijing 100005
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Fax: (86-10) 8519-1910
Website: **http://www.amcham-china.org.cn/**

American Soybean Association
Phillip W. Laney, Representative
China World Tower2, Room 902
Beijing 100004
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Fax: (86-10) 6505-2201

Construction Industry Manufacturers Association (CIMA)
No. 6 Southern Capital Gymnasium Road
Room 458, Office Tower New Century Hotel
Beijing 100044
Tel: (86-10) 6849-2403
Fax: (86-10) 6849-2404
Website: **http://www.cm-1.com/**

U.S.-China Business Council
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CITIC Building,Suite 26D
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Fax: (86-10) 6512-5854,
Website: **http://www.uschina.org/**

U.S. Grains Council
Todd Meyer, Director
China World Tower 2, Room 901
Beijing 100004
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Fax: (86-10) 6505-0236
Website: **http://www.grains.org/**

U.S. Wheat Associates
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United States Information Technology Office (USITO)
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Guangzhou 510133
Consul General: John J. Norris
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Fax: (86-20) 8121-6296
Principal Commercial Officer: Ned Quistorff
Tel: (86-20) 8667-4011
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Principal Commercial Officer: Catherine Houghton
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Consul General: Angus Simmons
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Multilateral Development Bank Office
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Trade Information Center
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U.S. Department of State
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U.S. Ex-Im Bank
Business Development Office
Washington, D.C.
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Fax: 202-565-3723
Website: **http://www.exim.gov/**
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K. U.S.-Based Multipliers

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- Guangzhou Metro Line One Profitable(China - 12/05/2001)
- Large Quantities Of Chemical Products For Auto Industry Required(China - 12/05/2001)
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- National Regulatory Commission For Certification & Accreditation(China - 11/08/2001)
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- Adb Creek Rehabilitation Proj(China - 09/07/2001)
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- Jilin Seeks Foreign Inv For Auto Production Line Extension Proj(China - 08/16/2001)
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- Sdpc Seeks Foreign Investment For 228 Major Projects(China - 07/24/2001)
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- Xinghua Seeks Foreign Investment For Automobile Control Chain Project(China - 07/24/2001)
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- Shandong Seeks Inv For Development Proj Of Sylvite-Sulphate(China - 07/11/2001)
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- Shandong Seeks Inv For Jet Ink Project For Printer(China - 07/11/2001)
- Shandong Seeks Inv For Wood Furfural Alcohol Proj(China - 07/11/2001)
- Tianjin Seeks Foreign Inv For Light Rail Transport Proj(China - 07/11/2001)
- Tianjin Seeks Foreign Inv For Metro No. 1 Line Construction Project(China - 07/11/2001)
- Yunnan Allows Foreign Inv In Some Monopoly Sectors(China - 07/11/2001)
- Liaoning Air Pollution Control Projects(China - 07/09/2001)
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- Tianjin Seeks Foreign Inv For 5 Container Berths Proj(China - 07/06/2001)
- Tianjin Seeks Foreign Inv For Coal Dock Project(China - 07/06/2001)
- It Is Estimated That By 2005 Civil Airports Will Reach 173(China - 07/05/2001)
- Tianjin Seeks Overseas Inv For Expansion Proj Of A Container Dock(China - 07/05/2001)

13. Trade Event Schedule

China International Aviation and Aerospace Fair Zhuhai, November 4-10, 2002Zhuhai Airshow Co. Ltd. Tel: (86-756) 3369-235 Fax: (86-756) 3376-415E-Mail: **Zharshow@pub.zhuhai.gd.cn**

10th Aviation Expo/China 2003Beijing, September 17-20, 2003China Promotion Ltd. Beijing Representative Office Tel: (86-10) 6872-8993 Fax: (86-10) 6871-6028 E-Mail: **cpexhbit@public.fhnet.cn.net**

Beijing International Automotive Parts Manufacturing & Related Products Show(AMS 2003)2003/09 Tel: (86-10) 6493-8403, 6491-5259 Fax: (86-10) 6496-8699

The 8th Beijing International Automotive Industry Exhibition (Auto China 2004)2004/06 Tel: (86-10) 8460-1973 Fax:(86-10) 6467-7385

Computer World Expo ‘02Beijing, Sept 2002Computer World Publication Tel: (86-10) 6825-9420 Fax: (86-10) 6825-9768 Email: **ccwexpo@ccw.com.cnWeb** Page: **http://www.ccwexpo.com.cn/**

China International Exhibition on Environmental Monitoring Instrumentation (CIEEMI 2002), October 29-31, 2002, Beijing. web site: **http://www.cieemi.com/** Email:

cieemi@k263.com

2nd China International Energy and Environmental Protection Exhibition and Conference (CERE 2002)November 4-7, 2002, Beijing. web site: http://www.ciscexpo.orgcn.net/

8th China International Environmental Protection Exhibition and Conference (CIEPEC 2003),June 5-8, 2003, Beijing. web site: http://www.zhb.gov.cn/english, http://www.chinaenvironment.com/, http://www.cepi.com.cn/ Email: fair@cepi.com.cn, caepi@public3.bta.net.cn

International Medical Technology ExpositionDate: September 3-6, 2002Place: Shanghai Mart, ShanghaiContact: Eryan Zhang Tel: (86-21) 6256-0100 Fax: (86-21) 6255-7491 E-mail: eryan@itpc.com.cn

China Pharm 2002Date: November 11-16, 2002Place: China International Exhibition Center, BeijingContact: Hao Bin, Qiao Yan Tel: (86-10) 6512-8587 Fax: (86-10) 6526-9675 E-mail: chinapharmex@china.com

China Med 2003Date: April 25-28, 2003Place: Beijing Exhibition Center, BeijingContact: Diana Liang Tel: (86-10) 6505-3832 Fax: (86-10) 6505-3260 E-mail: dianaliang@263.net

Sino Dental 2003Date: June 12-15, 2003Place: Beijing Exhibition Centre, BeijingContact: Liu Zhigui, Zhou Shaobo Tel: (86-10) 6879-2540 Fax: (86-10) 6879-2543 Email: dental@chsi3.moh.gov.cn

China Computerworld Infoex-world Services Ltd., Beijing Tel: (86-10) 6825-9420 Fax: (86-10) 6825-9768 E-mail: Zhangwy@public3.bta.net.cn

NepCon Beijing 2002CCPIT Electronics Sub-Council Tel: (86-10) 6820-7928/7929 Fax: (86-10) 6827-2288 Web Page : http://nepcon-china.asiansources.com/

E-Commerce Summit 2003China Electronic Commerce Association Tel: (86-10) 6820-0718, 6820-0725 Fax: (86-10) 6820-0717 E-mail: help@cegn.net

PT/EXPO COMM China 2002China International Exhibition Center, Beijing, ChinaOctober 29-November 2, 2002E.J. Krause & Associates, Inc. Tel: (8610) 8451-1832 Fax: (8610) 8451-1829 Email: ejk@public3.bta.net.cn

PT SuperComm Asia 2003Shanghai, China First Quarter, 2003 Telecommunications Industry Association Tel: (703) 907-7709 Fax:(703) 907-7728 Email: hwieland@tia.eia.org

ELE/Expo Comm Shanghai 2003Shanghai, ChinaJune, 2003E.J. Krause & Associates, Inc. Tel: (8610) 8451-1832 Fax: (8610) 8451-1829 Email: ejk@public3.bta.net.cn

China Transpo 2002(Road and Water Transport Technology & Equipment)October 22-25, 2002 Tel: (86-10) 6422-7788 ext. 615 Fax: (86-20) 6425-1287, 6425-1040

Chengdu International Railway and Expressway Exhibition for Engineering Equipment, Infrastructure & TechnologyMarch 2004 Tel: (86-28) 3336-693, 3378-102 Fax: (86-28) 3392-822, 3336-693

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